S. Hrg. 103-315

HEARING ON THE FEDERAL ROLE IN RURAL ECONOMIC DEVELOPMENT

[HEAR]ING

BEFORE THE

SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

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JULY 21, 1993

Printed for the Committee on Small Business

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HEARING DATE

HEARING ON THE FEDERAL ROLE IN RURAL ECONOMIC DEVELOPMENT

WEDNESDAY, JULY 21, 1993

U.S. SENATE,
SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:35 a.m. in room SR-428A, Russell Senate Office Building, Hon. Paul D. Wellstone (Chairman of the Subcommittee), presiding.

OPENING STATEMENT OF HON. PAUL D. WELLSTONE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator WELLSTONE. Good morning. I thank everyone for being here today. Today is my birthday and there is nowhere I would rather be than the Subcommittee on Rural Economy and Family Farming hearing. I actually mean that, and I welcome our distinguished witnesses and others.

This morning is the second in a series of hearings that we are going to be holding this year in this Subcommittee. Last week we discussed the potential of alternative agriculture, by which we meant and mean environmentally sustainable agricultural practices and new uses for agricultural commodities, as one approach to rural economic development.

The idea of the series of hearings is to examine the state of rural America and to explore promising strategies for rural economic development, not just as in talk or symbolic politics, because I think we are all really committed to rural economic development and we know if there ever was a time to get serious about that commitment, it is now.

It is my hope that the Subcommittee can become an important forum throughout this administration and into the future for discussing the rural economy and ways to revitalize it. I must also say that I believe—and I think we will hear this in the testimony of the very distinguished panelists today—that there is a real commitment on the part of this administration to rural economic development.

Through the course of these hearings we will pay special attention to the changing economic circumstances in rural America. Increased globalization and the growing recognition of environmental limits—to mention just two important factors—create special problems and, I think, special opportunities for rural America, especial-

ly for the small businesses and family agriculture that are central to this Subcommittee's area of interest. We want to focus both on the problems and the opportunities.

Government policy and the efforts of development organizations need to face the changing rural landscape. Not just the changing economic conditions but the demographic and social changes as well. And to name but one example, since I am very interested in health care policy, the large percentage of older Americans that live in rural America.

I think I can speak for the whole Subcommittee in saying that we will work to ensure that rural America's communities will continue to make an important contribution to our economy and our culture. And, as Chair, working with other distinguished Members like Senator Burns, I will try to make sure that Federal economic development and small business assistance efforts adequately serve rural areas.

Today's hearing is an introductory one. I am pleased to have here the key figures from two leading agencies involved in rural economic development so that they can provide an overview of their activities and direction. The purpose is to give the Subcommittee an idea of what the Department of Agriculture and the Small Business Administration are working on now, what works, what does not work, and what we need to do in order to focus on economic development and jobs in rural America.

I know that we have a President, and a Secretary of Agriculture, who are committed to rural economic development. And we have an SBA Administrator, I know from conversations with him, who has been working to help develop small- and medium-sized businesses in the rural parts of this country. So I expect that the rural economic development efforts of these two agencies will be given a higher profile. I hope to have both the Secretary and the Administrator here to testify before the Subcommittee, perhaps at our fall hearing to discuss their visions for rural economic development.

Today, I look forward to learning from those of you who have direct experience in operating these programs, and I thank all of you on both panels. I do want to recognize Mr. Bob Nash, Under Secretary at USDA, for Small Community and Rural Development. Also, Chuck Hertzberg, SBA's Assistant Administrator for Finance, who is accompanied by Allan Mandel who is involved with SBA's Office of Rural Affairs and Economic Development.

Before going to the panelists, I would ask my colleagues whether they have opening statements, and I would start with the ranking Minority Member, Senator Pressler from South Dakota.

[The prepared statement of Senator Wellstone follows:]

Prepared Statement of Senator Wellstone

I welcome our distinguished witnesses and others.

This morning's is the second in a set of hearings to be held this year by the Subcommittee. Last week we discussed the potential of alternative agriculture—by which we mean both environmentally sustainable agricultural practices and "new uses" for agricultural commodities—as an approach to rural economic development. And I expect to hold at least one major hearing here in the Subcommittee this fall.

The idea of this series of hearings is to examine the state of rural America and to explore promising strategies for rural economic development. It is my hope that the

Subcommittee can become an important forum, throughout this Administration and into the future, for discussing the rural economy and ways to revitalize it.

Through the course of these hearings, we will pay special attention to changing economic circumstances in rural America. Increased globalization and the growing recognition of environmental limits, to take just two important factors, create both special problems and special opportunities for rural America—especially for the small businesses and the family-agriculture sector that are this Subcommittee's area of interest. We want to focus on both the problems and the opportunities.

Government policy and the efforts of development organizations need to face the changing rural landscape directly: not just the changed economic conditions, but demographic and social changes as well. The problems of rural America may be generally less visible than those of metropolitan areas, but they are no less real.

I think I can speak for the whole Subcommittee in saying that we will work to ensure that rural America's communities will continue to make an important contribution to our economy and to our culture. And as Chair, I will try to make sure that federal economic development and small-business assistance efforts adequately serve rural areas.

Today's hearing is an introductory one. I'm pleased to have here the key figures from two leading agencies involved in rural economic development so that they can provide an overview of their activities and direction. The purpose is to give the Subcommittee an idea of what the Department of Agriculture and Small Business Administration believe is working now, or can work, to create good jobs and keep people in rural America.

I know we now have a President, and a Secretary of Agriculture, who are committed to rural economic development. And we have an SBA Administrator who has been working helping develop small- and medium-sized businesses in a part of the country where the rural sector is important. So I expect that the rural economic development efforts of these two agencies will be given a high profile. I hope to have both the Secretary and the Administrator here to testify before the Subcommittee, perhaps at our fall hearing, to discuss their visions for rural economic development.

Today I look forward to learning from those who direct and operate these important programs. Mr. Nash, Mr. Hertzberg, Mr. Mandel and Mr. Gibb, thank you for coming here today.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Thank you, Mr. Chairman. I shall place my statement in the record, and I look forward to hearing the witnesses. I have to juggle three hearings this morning, I should explain, so if I come and go a little, excuse me. In addition to this hearing I have hearings in the Judiciary and Foreign Relations Committees.

My home State of South Dakota is the Nation's most rural and agricultural state—40 percent of South Dakota's personal income is dependent on farm spending. This represents the highest rate in the country. When agriculture suffers, all of South Dakota suffers. I could go on at length about the impact and increased need associated with the recent floods in my home State. However, I know that USDA, FEMA, and SBA are hard at work in the disaster areas to coordinate and provide needed assistance.

Setting this present crisis aside, we must continue to examine the overall role of the Federal Government in promoting rural economic development. It has been my experience that here in Washington rural economic development has not been so much a partisan issue as it has been one of small cities versus big cities. Every time a bill comes through, be it a highway bill or an education bill or anything else, those of us representing rural states are lined up trying to protect rural and small city areas, or at least give them fair treatment. This is not done just for our constituents, for it is truly in the national interest that we do so.

It also is true in the telecommunications area, as I know my friend from Montana understands. We are constantly trying to tailor programs that will help smaller cities and rural areas.

Processing plants that add value to crops, like ethanol production, stand as some of rural America's most saleable economic options. Likewise, we must not overlook the vital role that up-to-date telecommunications systems and other technologies can play in rural America's economic future.

All of this is my way of saying that I look forward to working with you, Mr. Chairman, on these matters, and I commend you for holding this hearing. I think it is essential.

Again, I welcome our witnesses and I look forward to hearing my colleagues.

[The prepared statement of Senator Pressler follows:]

Prepared Statement of Senator Pressler

I want to thank the Chairman for calling this hearing on a topic vital to my home State of South Dakota, as well as the entire Nation. I also want to thank the witnesses for taking the time to testify this morning.

South Dakota is this Nation's most rural and agricultural state. Forty percent of South Dakota's personal income is dependent on farm spending. This represents the highest rate in the country. When agriculture suffers, all of South Dakota suffers!

The recent and ongoing disastrous flooding in South Dakota and the rest of the Midwest is indicative of this. When all the numbers are in, it likely will show that South Dakota suffered the greatest in terms of economic loss. It has 3.3 million flooded acres—more than any other state. Farmers have told me this is the worst agricultural and business disaster ever to hit South Dakota. Assistance is greatly needed. I know that USDA, FEMA and SBA are hard at work in the disaster areas to coordinate and provide needed assistance.

Setting this present crisis aside, we must continue to examine the overall role of the Federal Government in promoting rural economic development. The SBA's loan programs, Small Business Development Centers, the Farmer's Home Administration, the Rural Development Administration, and the Rural Electrification Administration are instrumental in delivering programs and assistance to citizens throughout the Nation.

As we examine how the Federal Government can help develop economic potential in our small cities and rural areas, we must focus on the future. For instance, government programs should embrace long-term solutions. Programs should encourage entrepreneurs to discover innovative uses for agricultural products. Processing plants that add value to present crops—like ethanol production—stand as some of rural America's most saleable economic options. Likewise, we should not overlook the vital role that up-to-date telecommunications systems and other technologies can play in rural America's economic future.

Again I welcome our witnesses and look forward to their testimony.

The Chairman. Senator Burns.

STATEMENT OF HON. CONRAD BURNS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator Burns. Thank you very much, Mr. Chairman. I will insert my opening statement in the record but there are a couple of points that I want to make this morning.

If you have been to the Midwest and talked with the people who have been flooded out, they say, you know, "Well, my gosh, how could this happen again?" And we say, "Well, it happened once. It will happen again, and it will happen again, because those rivers, you cannot control them." Sometimes we have to give up to Mother Nature because she takes and revitalizes those bottoms, and what she takes away she will replenish, and we will go on living.

The bad thing about it is that man enters and builds levies. One levy breaks and the water cannot get back to the main channel, so we are going to have to live with that water down there. And to the ingenuity of man in trying to outsmart Old Man River, he thus gets outsmarted.

So many times, the Government goes out and says, "What can we do to you today?" And we ought to be going out and saying, "What can we do for you today?" I receive a lot of farm publications because agriculture is our biggest industry in Montana. It will remain our biggest industry for some time to come. There will be folks who will try to change that, but that will not change. It cannot be changed.

I get the biggest kick from the myriad of newsletters I get and their attitude toward what the Government should or should not be doing in rural America. Just a month ago Montana's Farmers Union News wrote an article about budget reconciliation. The article stated, "It is clear that the Senate version is preferred over the House version because it minimizes the impact to net farm income." We have to write that down and see what we are doing.

National Cattlemen's Association policy on natural resources: "Federal Government should not regulate or influence the use of private lands." Not public lands; private lands.

At a meeting on wetlands Farm Bureau members emphasized, "how confusing wetland regulations are with four different agencies responsible for enforcement of wetlands."

The most illustrative message comes from Becky Terry who is President of the American Cattlewomen. "People are really tired of government intrusions in their business and are sending the message loud and clear—let us keep some of our money, and let us determine how we want to spend it." And if you want to pump some economic development into a rural community, let them keep some of the money that they earn.

The message is quite clear that, yes, there are some things that Mr. Nash, Mr. Mandel, Mr. Hertzberg and all of us can do to help promote rural development, but it will be the ingenuity and the innovativeness of our people that will get it done for our communities. Government cannot do it all.

It is surprising how many TV crews and radio broadcasts are reporting from the Midwest on these floods. They are surprised that the people are resigned to the fact that there is a flood; the Government cannot do a lot about it, we will clean it up and we will wear out our mops. We will clean it up and we will start all over again and we will survive, because in that part of the world, they are survivors.

So that is what we have to recognize and to reward, the people who have that kind of steel in them because they still believe in this great country and in this system.

With that, there are some things that we can do. Working together we can do some things. But sometimes when we try to do it, we sort of mess some things up, too. I think what we have to do is look at some common sense approaches to how we can spur economic development in our rural areas. We need to take a look to see what our primary purpose is—to provide the infrastructure

which puts those people in touch with downtown America, with rural areas.

So I appreciate all of you being here today and I look forward to hearing your testimony. Thank you, Mr. Chairman.

[The prepared statement of Senator Burns follows:]

Prepared Statement of Senator Burns

Mr. Chairman, thank you for holding this hearing today. The hearing which was held last week was informative, and I am looking forward to hearing testimony from today's witnesses.

The title of this morning's hearing is "The Federal Role in Rural Economic Development." For too long the approach for Federal Government has been "what can I do to you today"—instead it should be, "where can I help!" I believe what the Federal Government needs to do is get out of the way! Rural America is over re-regulated and is being strangled to death by laws which are supposed to help.

I receive many agriculture newsletters in my office. Most of the stories are written by people outside the beltway—I find these sources more reliable. Let me run through four quotes from these publications which I think illustrate my point of too much government interference in our daily lives:

> The Montana Farmers Union News Notes wrote, regarding the budget reconciliation, "It is clear that the Senate version is preferred over the House version because it minimizes the impact to net farm income."
>
> The National Cattlemen's Association's policy on Natural Resources states, "The Federal Government should not regulate or influence the use of private lands."
>
> The Farm Bureau said that in a meeting on wetlands, their members "emphasized how confusing wetland regulations are, with four different agencies . . . responsible for enforcement.
>
> The message which is the most illustrative comes from Becky Terry, President of the American Cattlewomen. She says, "People are really tired of government intrusions in their business and are sending the message loud and clear—No More Taxes."

This message is as clear as a bell—the Federal Government does best when it gets out of the way of people's daily lives. Instead of placing the Federal Government on the backs of the American people, we need to encourage growth through the protection of private property rights, lowering the tax burdens, and providing incentives for new businesses.

What irritates members of the agriculture communities most is not only do these regulations impede on their daily lives, their tax dollars are going to fund the administration of the regulations. The chief paperwork manager at the Interior Department has estimated that Americans spend about 12 billion hours a year (48 hours per person) simply dealing with federal forms. Farmers and ranchers are the ones who spend the most time filling out these.

In my statement last week I talked a lot about taxes and how they hinder economic growth in agriculture and every other business. Today, I hope we will discuss further the way regulations and other government interference impedes on economic development.

Thank you, Mr. Chairman.

The Chairman. In the spirit of concrete common sense approaches, Mr. Under Secretary.

STATEMENT OF BOB NASH, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. Nash. Thank you very much. Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to come before you to talk about the economic conditions and prospects for rural America as we move into the mid-1990s. And I appreciate your initiating a broad look into the current status and future possibilities for rural America. I would like to begin today by discussing the recent rural economic conditions and trends. Then I would

like to shift to considering some of the underlying forces producing these trends. If we understand these forces I believe this helps provide a framework for considering the future of rural America and ways Government might help improve the wellbeing of rural people.

In general, the 1980s and 1990s were not good for rural America. While the rural economy did not falter as much as the urban economy in the most recent recession, according to most standard economic rural indicators rural areas are not much better now than they were in 1980, and they are worse off relative to urban areas. The rapid U.S. employment growth in the 1980s was much more an urban phenomenon with urban employment growing twice as fast a rural employment. Those industries closely associated with natural resources in general—agriculture, mining, forestry—saw a decline in direct employment. Manufacturing stagnated in the 1980s after being the principal engine of rural job growth for three decades.

The 1980s saw an emergence of persistently higher unemployment rates in rural areas than urban areas, reversing a pattern of lower rates that existed earlier. Rural areas were harder hit by the recessions in the early eighties and took longer to recover. In fact, at the end of the extended and relatively strong recovery, the rural unemployment rate was still higher than the urban rate. With the urban economy hit more than the rural economy by the early 1990s recession, the rural unemployment rate has actually dipped below the urban rate. When that official rate is adjusted to take into account people who are involuntarily working part time or who have stopped looking for jobs because they think no jobs are available, the rural and urban rates are almost identical.

Income levels and poverty rates provide another measure of rural conditions, both relative to urban areas and in absolute terms. But by either measure, rural areas lost ground during the 1980s after experiencing significant improvements in the 1960s and 1970s. At the end of the 1980s, rural per capita income was only about 72 percent of urban per capita income, about the same level as it was 20 years before. Because urban areas have been harder hit by the recent recession, the rural-urban income gap narrowed slightly in 1991 but the change was due to a decline in urban income levels and not an increase in rural levels.

Poverty. Rural poverty also remains relatively high. It is 2.4 percentage points above the urban rate. Rural and urban poverty rates rose dramatically during the early 1980s recessions. But, unlike the urban poverty rate which fell rapidly during the economic expansion that followed, the rural poverty rate fell very slowly. Higher rural poverty rates hold true for virtually all subgroups of the rural population, such as female heads of households, the elderly, Blacks, Hispanics, and Native Americans. And poverty rates are especially high in the rural South among minorities. The poverty rates for rural Blacks are comparable to those in cities that get far more press attention.

The fact that the recent recession was more severe in urban than rural areas appears to be in large part because the industries particularly hard hit—defense, real estate, finance—are all urban oriented. As they struggled to adjust to changing economic conditions

they pulled down the urban economies of which they are a part. There is every reason to believe that with the economy beginning to pick up again, the rural disadvantage that was evident during the 1980s will re-emerge. Moreover, it is likely that during the recession, rural unemployment rates would have risen more if larger numbers of rural workers had not left the labor force, presumably as a temporary response to shrinking employment opportunities in rural areas.

Because of the poor performance of the rural economy in the 1980s, widespread population loss and outmigration from rural areas resumed. The 1990 Decennial Census confirms that over one-half of all rural counties lost population during the decade. In contrast, fewer than one-fifth of all rural counties lost population in the 1970s. Only two groupings of counties—those adjacent to large, growing metropolitan areas and others with physical amenities such as lakes, seashores, mountains and moderate climate which were attractive for recreation or to retirees or others who prefer living in rural areas—managed to attract new residents and economic opportunities in the 1980s. It is likely that this trend has continued in the 1990s although we do not have any numbers to verify that.

The rural economic disadvantage that emerged in the 1980s appears to reflect both a continuation of a long-term decline in resource industry employment and a newly emerging comparative disadvantage in manufacturing resulting from further integration of the U.S. into the global marketplace. The process of structural change in agriculture has meant a declining relative role for farming as a source of rural employment and income as other rural sectors have expanded.

Farm employment has declined dramatically since the 1950s. As a result, farming now provides approximately 8 percent of non-metropolitan jobs, and if you add agricultural input industries and processing and marketing, this increases the importance of agriculture to the economy of rural areas. However, both the agricultural input and processing and marketing industries lost employment in the 1980s, and most of the modest gains since 1987 have been in metropolitan areas. In fact, most of the growth in the food and fiber system employment in the last decade has been in the wholesale and retail trade sector, jobs that are primarily in metropolitan areas. Big cities.

Mining industries, in spite of a brief expansion during the energy crisis of the 1970s, also play a declining role in the rural economy. In 1990, mining employment was 20 percent lower than 30 years earlier. Virtually all of this decline occurred in rural areas, and there is little indication that the trend will automatically reverse as productivity in mining continues to increase.

So, while natural resource-based activities, especially farming, continue to dominate much of the landscape of rural America, they provide less of a basis for work, for employment. Areas in which these activities remain economically dominant in many cases are sparsely settled and contain slightly more than one-sixth of the rural population. Thus, the current future economic wellbeing of most rural people depends mainly upon economic performance of other sectors. Even in those geographic areas with a current de-

pendence on natural resources, the potential for future job growth from resource-based production is limited. The weak connection between natural resource production generally and rural development means that we need a new framework for future rural economic development that includes a broad range of employment-creating sectors.

Virtually all the growth in rural employment in the last decade was in the service sector, which accounts for the largest share of rural income and employment. Manufacturing, the major source of local export earnings for rural economies—and, therefore, along with producer services—critical to growth barely held its own. Despite a decade of weak growth, in 1992 manufacturing still accounted for twice as much rural employment as agriculture.

Rural manufacturing and producer services seem to be experiencing a growing competitive disadvantage from global competition. There are two problems.

In the post-World War II period, growing manufacturing employment helped make up for the loss in jobs in agriculture and mining. Manufacturing employment expanded nationally and decentralized out of large cities into rural towns. As a result, manufacturing employed a higher proportion of rural workers than urban workers in 1980. In the 1980s, however, with heightened foreign competition and new labor-saving technology, manufacturing employment stagnated nationally, and the decentralization from urban to rural slowed dramatically. As a result, rural manufacturing was no longer able to replace employment losses in agriculture and mining.

There was also an apparent shift in the structure of U.S. manufacturing employment away from low-skilled blue collar jobs and toward high-skilled white collar and management jobs. This shift eroded the competitive position of rural areas within manufacturing because rural areas have tended to specialize in routine production jobs. Whatever the precise cause, this rural specialization increased during the decade. Rural manufacturing found itself in an awkward position, vulnerable to foreign competition for low-skilled, low-wage production activities, and unable to compete with urban areas for high-skilled, high-wage, complex manufacturing jobs. By 1990, low-skilled, low-wage jobs in manufacturing were more concentrated in rural areas, and high-skilled jobs were more concentrated in urban areas. Also, growth in high-paying legal, financial, and other producer service jobs were concentrated in urban areas, reflecting a further rural competitive disadvantage.

Second, the increasing presence of low-skilled, low-wage jobs in rural manufacturing was accompanied by a growing gap between young rural and urban workers, especially those with higher educational attainment. In 1979, young rural adult men earned about 12 percent less than young urban men. There was little change in the rural earning gap during the 1980s for men with high school educations. But for college graduates, the premium earned by young urban workers was over 30 percent by the end of the 1980s. The result has been very high rates of outmigration by better-educated rural people. The net effect is that young rural adults on average have lower educational attainments than do their urban

counterparts, even just 10 years ago, which further weakens the future development of rural areas.

Looking at all these conditions and trends together it becomes clear that as the U.S. moves towards greater integration of the national and world economy, large urban nodes or areas have emerged as the main points of connection and engines for economy growth. Rural areas, especially those that are remote, appear to be falling behind in terms of the national norms of wellbeing. Moreover, their remoteness involves more than just an inability of rural workers to commute to urban jobs. It means that rural areas and businesses are handicapped because they are disconnected from centers of information, innovation, and technology. And specialized private services such as accounting, engineering, bookkeeping, which appear to have significant potential for growth, have trouble even surviving in rural areas when they are not integrated into larger urban areas.

More than ever, future rural economic progress depends upon shrinking the space between urban and rural places and people. This will test the adequacy of current rural physical and institutional infrastructure. It may also require a substantial shift in the perspective of rural business people and public officials to need to see future rural development opportunities in terms of broader forces of change in the global marketplace. Distance and tradition cannot be relied upon to insulate local economies from the dominant forces of change.

The rural experience of the 1980s and 1990s has also re-emphasized the diversity among rural areas and the impact that diversity has on economic success or stagnation. Two kinds of rural areas appear to be reasonably well positioned to share in the future U.S. economic growth. Areas that are adjacent to large and growing urban areas will find many opportunities to capitalize on their locational advantages. Likewise, rural areas with physical amenities will continue to be attractive for recreation, retirement and other activities. But some rural areas will find it difficult to take advantage of the forces of change. The challenge we all have is to find ways of linking remote rural areas with locational assets more fully into the national and global marketplace so they can reduce their continuing dependence on economic sectors that are stagnant or declining.

I am not prepared yet to address in a comprehensive way the administration's response to the economic challenges facing America. We have made a number of proposals and I would like to mention a couple of them for the record.

One is the empowerment zone proposal. As part of our review of ways to make rural areas more competitive in the national and global economy we have examined research on existing state-sponsored enterprise zone programs. That research clearly indicates that enterprise zones can be effective instruments for rural economic development with considerable potential to harness the energy and enhance cooperation between the public and private sectors. As a result, the President proposed the Federal Enterprise Zone program which includes a number of rural zones, approximately 40 percent.

Community Development Banks. There is also considerable research that suggests that start-up enterprises, especially ones that are on the cutting edge of technology or exploring new market niches, face serious obstacles to financing. In some cases it is a lack of local expertise in local lending institutions about the new kinds of businesses that leads to a reluctance on the part of lenders. In other cases there is little to secure a loan. And rural remoteness combined with the small size of the needed loans makes transaction costs too high for most urban venture capital firms to enter the market. The President's recently announced Community Development Lending Initiative is an effort to link the capacities of all lending institutions to improve the chances of rural small firms, especially those that provide much-needed diversification in the rural economy.

Partnerships. We at USDA understand that we have a key role in the Federal Government in the area of rural development. It is not something that we should try to undertake alone. We are committed to developing truly collaborative partnerships with other actors who shape the future of rural America. Obviously, that includes several other Federal agencies, but we are equally cognizant of the critical role played by states—and I come from state government—community leaders, both elected officials and community-based organizations, and the private sector. It is our intention to work in concert with these partners to create a brighter future for rural citizens. We believe that these partnerships need to be grounded at the local level where job-creating strategies are built and tied to the national policymaking system so that rural citizens' interests can be effectively voiced.

There are things already going on at USDA that I believe will make a difference in rural America's ability to effectively participate in the national and global economy. The Rural Electric Administration's Distance Learning and Medical Link programs address the problems of remoteness and isolation with which many communities struggle. Under this program, communities, through effective use of powerful telecommunications and technology, will have access to all sorts of information found in large urban-based medical and educational centers. Perhaps as important, the program will support telecommunications networks that will make it possible for communities to work collaboratively to bring modern health and educational services to their residents.

The potential of telecommunications and telecommunications-based activities reaches well beyond health and education. "Inforwork" back office services and other "tele-work" show promise of being future sources of jobs in rural communities. But the promise will remain only that if rural communities and people do not have the knowledge and tools to make it a reality. The Rural Electric Administration could play a central role in bringing technology and know-how to rural communities, taking rural modernization to the next level with the agency's Rural Development Loan and Grant Program in the context of a commitment to technology transfer from an activist standpoint.

New technology holds promise for agriculture, but to date, we have not been very good at linking what is going on in laboratories with the demands of the market. New uses for agricultural prod-

ucts and new agriculture-based technologies have not been responsive to market signals that would lead their integration into the larger economy and a greater demand for agriculture products. We have to do a better job of that. Someone has to take the research scientist by the hand, and the farmer and the businessman by the other hand, and lead them into a collaborative relationship where they search for real niches in the modern economy. It has not been happening on its own, but with a renewed effort in our department we think it will happen.

Mr. Chairman and Members of the Committee, that concludes my statement. I want to say this. One of the things I think we have to do is to face up to what the hard facts are. That is the only way I think we are going to be able to change and improve the lives of people who live in rural areas. What I have attempted to do is to outline some of the facts that are occurring and to say that we must look at the development in rural areas differently.

Historically, I think, we have felt that if agriculture was doing very well, automatically everything else would do well. Or, if the communities were doing well, then agriculture did not have to do well. In my opinion, rural areas will not make it unless farmers are doing well and the communities they live in are doing well. What we have to do is have a broad-based strategy that addresses the problems and challenges in both those opportunities. We cannot do it the way we have been doing it.

And this effort is not for the faint of heart or mind or body. It is going to be tough because we have got to have the commitment. We have got to get up early, we have to go to bed late. Otherwise, we are not going to be able to make rural areas a better place to live.

[The prepared statement of Mr. Nash follows:]

Prepared Statement of Bob Nash

Thank you for this opportunity to come before you to talk about the economic conditions and prospects for rural America as we move into the mid-1990s. I appreciate your initiating a broad look into the current status of and future possibilities for rural America. I would like to begin today by discussing recent rural economic conditions and trends. I will then shift to considering some of the underlying forces producing those trends. Understanding those forces I believe helps provide a framework for considering the future of rural America and ways government might help improve the well-being of rural people and their communities.

In general, the 1980s and early 1990s were not good to rural America. While the rural economy did not falter as much as the urban economy in the most recent recession, according to most of the standard economic indicators rural areas are not much better off now than they were in 1980, and are worse off relative to urban areas.

The rapid U.S. employment growth of the 1980s was much more an urban than rural phenomenon, with urban employment growing almost twice as fast as rural employment. Those industries closely associated with natural resources—agriculture, mining, and forestry—actually saw a decline in employment. Manufacturing stagnated in the 1980s after being the principal engine of rural job growth for 3 decades.

The 1980s saw the emergence of persistently higher unemployment rates in rural than in urban areas, reversing a pattern of lower rates that existed earlier. Rural areas were harder hit by the recessions in the early 1980s and took longer to recover. In fact, at the end of the extended and relatively strong recovery, the rural unemployment rate was still higher than the urban rate. With the urban economy hit more than the rural economy by the early 1990s recession, the rural unemployment rate has actually dipped slightly below the urban rate. When that official rate is adjusted to take into account people who are involuntarily working part-time or

who have stopped looking for work because they think there are no jobs available, the rural and urban rates are identical.

Income levels and poverty rates provide another measure of rural conditions, both relative to urban areas and in absolute terms. By either measure rural areas lost ground during the 1980s, after experiencing significant improvement in the 1960s and 1970s. At the end of the 1980s rural per capita income was only 72.2 percent of urban per capita income, about the same level as it was nearly 20 years before. Because urban areas have been harder hit by the recent recession, the rural-urban income gap narrowed slightly in 1991, but the change was due to a decline in urban income levels not an increase in rural levels.

Rural poverty also remains relatively high. It is 2.4 percentage points above the urban rate. Rural and urban poverty rates rose dramatically during the early 1980s recessions. But, unlike the urban poverty rate which fell rapidly during the economic expansion that followed, the rural poverty rate fell very slowly. Higher rural poverty rates hold true for virtually all subgroups of the rural population: female headed households, the elderly, Blacks, Hispanics, and Native Americans. Poverty rates are especially high in the rural South, and among rural minorities. The poverty rates for rural Blacks are comparable to those in central cities that get far more attention.

The fact that the recent recession was more severe in urban than rural areas appears in large part to be because the industries particularly hard hit—defense, real estate and finance—are urban oriented. As they struggled to adjust to changing economic conditions, they pulled down the urban economies of which they are a part. There is every reason to believe that with the economy beginning to pick up again, the rural disadvantage that was evident throughout the 1980s will reemerge. Moreover, it is likely that during the recession rural unemployment would have risen more if large numbers of rural workers had not left the labor force, presumably as a temporary response to shrinking employment opportunities.

Because of the poor performance of the rural economy in the 1980s, widespread population loss and outmigration from rural areas resumed. The 1990 decennial Census confirms that over one-half of all rural counties lost population during the decade. In contrast, fewer than one-fifth of all rural counties lost population in the 1970s. Only two groupings of rural counties, those adjacent to large and growing metropolitan areas, others with physical amenities—lakes, seashores, mountains, and moderate climate—which were attractive for recreation or to retirees and others with a preference for rural living, managed to attract new residents and economic opportunities in the 1980s. It is likely that this trend has continued in the early 1990s, although no statistics are available to verify that claim.

The rural economic disadvantage that emerged in the 1980s appears to reflect both a continuation of a long-term decline in resource industry employment and a newly emerging competitive disadvantage in manufacturing resulting from further integration of the United States into the global marketplace. The process of structural change in agriculture has meant a declining relative role for farming as a source of rural employment and income as other rural sectors expanded. Farm employment has declined dramatically since 1950. As a result, farming now provides only about 8 percent of nonmetro jobs. Adding agricultural input industries and agricultural processing and marketing increases the importance of agriculture to the economy of rural areas. However, both the agricultural input and processing and marketing industries lost employment in the mid-1980s, and most of the modest job gains since 1987 have been in metro areas. In fact, most of the growth in food and fiber system employment in the last decade has been in the wholesale and retail trade sector, jobs that are primarily in metro areas.

Mining industries, in spite a brief expansion during the energy crisis of the 1970s, also play a declining role in the rural economy. In 1990, mining employment was 20 percent lower than 30 years earlier. Virtually all of this decline occurred in rural areas and there is little indication the trend will reverse as productivity in mining continues to increase.

So while natural resource-based activities (especially farming) continue to dominate much of the visual landscape of rural America, they provide less and less of a basis for rural work. Areas in which these activities remain economically dominant are sparsely settled and contain only slightly more than one-sixth of the rural population. Thus, the current and future economic well-being of most rural people and communities depends mainly on the economic performance of other sectors. Even in those areas with a current dependence on natural resources, the potential for future job growth from resource-based production is limited. The weak connection between natural resource production generally and rural development means we need a new

framework for future rural economic development that includes a broad range of employment creating sectors.

Virtually all of the growth in rural employment in the last decade was in the service sector which accounts for the largest share of rural income and employment. Manufacturing, the major source of "local export" earnings for rural economies and therefore, along with producer services, critical to economic growth barely held its own. Despite a decade of weak growth, in 1992 manufacturing still accounted for twice as much rural employment as agriculture.

Rural manufacturing and producer services sectors seem to be experiencing a growing competitive disadvantage from global competition. Two problems are apparent:

- In the post-WWII period, growing manufacturing employment helped make up for the loss of jobs in agriculture and mining. Manufacturing employment expanded nationally and decentralized out of large cities into rural towns. As a result, manufacturing employed a higher proportion of rural workers than urban workers in 1980. In the 1980s, however, with heightened foreign competition and new labor-saving technology, manufacturing employment stagnated nationally, and the decentralization from urban to rural areas slowed dramatically. As a result rural manufacturing was no longer as able to replace employment losses in agriculture and mining.
- There also was an apparent shift in the structure of U.S. manufacturing employment away from low-skill blue collar jobs and toward high-skill white collar and management jobs. This shift eroded the competitive position of rural areas within manufacturing, because rural areas have tended to specialize in routine production jobs. Whatever the precise cause, this rural specialization increased during the decade. Rural manufacturing found itself in an awkward position, vulnerable to foreign competition for low-skill, low wage production activities and unable to compete with urban areas for high-skill, high-wage complex manufacturing. By 1990, low-skill, low-wage jobs in manufacturing were more concentrated in rural areas, and high-skill, high-wage jobs were more concentrated in urban areas than in 1980. Also, growth in high paying legal, financial, and other producer service jobs was concentrated in urban areas, reflecting a further rural competitive disadvantage.
- Second, the increasing presence of low-skill, low-wage jobs in rural manufacturing was accompanied by a growing earnings gap between young rural and urban workers, especially those with higher educational attainment. In 1979, young rural adult men earned about 12 percent less than young urban men. There was little change in this rural earnings gap during the 1980s for men with a high school education. But for college graduates the premium earned by young urban workers was over 30 percent by the end of the 1980s. The result has been very high rates of outmigration of better educated rural people. The net effect is that rural young adults on average have lower educational levels now than did their counterparts 10 years ago, weakening the future development potential of rural areas.

Looking at all of these conditions and trends together it becomes clear that as the United States moves toward greater integration of the national and world economy, large urban nodes have emerged as the main points of connection and engines of economic growth. Rural areas, especially those that are remote, appear to be falling behind in terms of national norms of well-being. Moreover their remoteness involves more than an inability of rural workers to commute daily to urban jobs. It means that rural areas and businesses are handicapped because they are disconnected from centers of information, innovation, technology, and finance. And specialized private services, which appear to have significant potential for future job growth, have trouble even surviving in rural areas when they are not integrated into larger centers.

More than ever, then, future rural economic progress depends on shrinking the "space" between urban and rural places and people. This will test the adequacy of the current rural physical and institutional infrastructure. It may also require a substantial shift in the perspective of rural business people and public officials who need to see future rural development opportunities in terms of the broad forces of change in the global marketplace. Distance and tradition cannot be relied upon to insulate local economies from the dominant forces of change.

The rural experience of the 1980s and early 1990s have also reemphasized the diversity among rural areas and the impact that diversity has on economic success or stagnation. Two kinds of rural areas appear to be reasonably well positioned to share in future U.S. economic growth. Areas that are adjacent to large and growing urban areas will find many opportunities to capitalize on their locational advan-

tages. Likewise, rural areas with physical amenities will continue to be attractive for recreation, retirement, and other activities. But some rural areas will find it difficult to take advantage of the forces of change. The challenge is to find ways of linking remote rural areas without locational assets more fully into the national and global marketplace so that they can reduce their continuing dependence on economic sectors that are stagnant or declining in employment.

While I am not yet prepared to address in a comprehensive way this Administration's response to the economic challenge facing rural America, we have made a number of proposals that I would like to note for the record.

Enterprise Zones—As part of our review of ways to make rural areas more competitive players in the national and global economy we examined the research on existing State-sponsored enterprise zones. That research clearly indicates that enterprise zones can be effectively instruments for rural economic development, with considerable potential to harness the energy and enhance cooperation between the public and private sector. As a result, the President has proposed that the new Federal Enterprise Zone initiative include a number of rural zones.

Community Development Banks—There is also considerable research that suggests new start-up enterprises, especially ones that are on the cutting edge of technology or exploring new market niches, face serious obstacles to financing. In some cases it is a lack of expertise in local lending institutions about these new kinds of businesses that leads to a reluctance of lenders; in other cases there is little to secure their loans. And rural remoteness, combined with the small size of the needed loans, makes the transaction costs too high for most urban-based venture capital firms to enter the market. The President's recently announced community lending initiative is an effort to link the capacities of all lending institutions to improve the chances of rural small firms, especially those that provide much needed diversification of the rural economy.

Collaborative Partnerships—We in USDA understand that, while we have a key leadership role for the Federal Government on rural development, it is not something that we can or should try to undertake alone. We are committed to developing truly collaborative partnerships with the other actors who shape the future of rural America. Obviously, that includes several other federal agencies. But we are equally cognizant of the critical role played by the States, community leaders—both elected officials and community-based organizations, and the private sector. It is our intention to work in concert with these partners to create a brighter future for our rural citizens. We believe that these partnerships need to be grounded at the state and local level where job-creating strategies are built, and tied to the national policy-making system so that rural citizens interests can be effectively voiced.

There are things already going on in USDA that I also believe will make a difference in rural America's ability to effectively participate in the national and global economy of the future. REA's Distance Learning and Medical Link Program directly addresses the problem of remoteness, and associated isolation, with which many rural communities struggle. Under this program, communities, through effective use of powerful telecommunications technology, will have better access to all sorts of information found in large/urban based medical and educational centers. Perhaps as important, the program will support telecommunications networks that will make it possible for communities to work collaboratively to bring modern health and educational services to their residents.

The potential of telecommunications, and telecommunications based activities, reach well beyond the health and education arena. "Info-work" back office services and other "tele-work" show promise of being future sources of jobs in rural communities. But the promise will remain only that, if rural communities and people don't have the knowledge and tools to make it a reality. REA could play a central role in bringing technology and know-how to rural communities, taking rural modernization to the next level with the agency's rural development loan and grant program in the context of a commitment to technology transfer "activism."

New technology also holds promise for agriculture, but to date we have not been very good at linking what is going on in the laboratories with the demands of the market. New uses for agricultural products and new agriculture based technologies have not been responsive to market signals that would lead to their effective integration in the larger economy and a greater demand for agriculture products. Someone has to take the research scientist by one hand and the farmer-businessman by the other and lead them both into active collaboration as they search for real niches in the modern economy. It has not been happening on its own, but with a renewed effort in the department, we think it will.

The CHAIRMAN. Mr. Under Secretary, thank you very much for your testimony. I understand that you want to join Secretary Espy and need to leave at about 10:30. We will go to the testimony of Mr. Hertzberg and then we will come back with questions for you and that would enable you to leave, I hope, by 10:30. Thank you very much, and we will come back with some specific questions.

Mr. Hertzberg.

STATEMENT OF CHARLES R. HERTZBERG, ASSISTANT ADMINISTRATOR FOR FINANCIAL ASSISTANCE, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY ALLAN MANDEL, DIRECTOR, OFFICE OF RURAL AFFAIRS AND ECONOMIC DEVELOPMENT, SBA

Mr. HERTZBERG. Mr. Chairman, if it is all right I will summarize my statement, having submitted the full statement for the record.

It is a pleasure to be here today to discuss rural economic development and the role played by SBA's Office of Rural Affairs. The Office of Rural Affairs and Economic Development was created in 1991 by adding a rural development function to the Office of Economic Development, which administers the 504 guaranteed loan program. The first task was to develop an overall strategy for rural development. It was apparent from the outset that, in a time of shrinking budgets, SBA did not have the resources for a major stand-alone rural development organization. Fortunately, we discovered that SBA was already very active across the country in rural development. We decided that the most effective use of our resources was to play an active role in administration-wide development activities to leverage our resources, and to fill special niches where we could.

In the central office, the Office of Rural Affairs and Economic Development has Dan Gibb devoted full time to rural activity, plus two others who devote part of their efforts to this area. The Office of Advocacy and the Office of Business Development each have several employees who devote significant amounts of time to rural development issues. Many of our programs and projects have an impact on rural development, and many other individuals in both the field and central offices are also involved.

The Office of Rural Affairs and Economic Development plays a very active coordinating role within the SBA. In the central office, staff members from Rural Affairs, Advocacy, and Business Development are in daily contact on a large variety of rural projects and issues. We are also in frequent contact with our field offices and receive monthly reports from our regions regarding plans and activities in their jurisdictions.

A key part of our administration-wide activity has been active participation in the National Initiative on Rural America, which is made up of 18 Federal agencies working with many state and local governments, Native American tribal councils, and the private sector. The focal point of NIRA is the creation of state-rural development councils. At this time there are 36 such councils that are up and running with a senior SBA official on each. Many of the SBA representatives have been serving in a leadership position.

SBA is playing a major role in the Kansas Rural Development Council Demonstration project in which SBA, the Department of Treasury, Department of Agriculture, the Department of Housing and Urban Development, the Economic Development Administration, and the Kansas Department of Commerce and Housing are developing a system to process and coordinate business loan applications for rural development projects. The SBA Certified Development Company is serving as a clearinghouse screening project applications, deciding which agency or agencies can best handle the project, and seeing that the paperwork gets into the right hands. All agencies have agreed to use the SBA business loan application form as the basic document, augmented as necessary to meet specific agency requirements. This is a major project that addresses the longstanding impediment of how to cut through the red tape of a multitude of differing agency forms and requirements.

SBA tries to identify rural areas which appear to be underserved by SBA's financial and other assistance programs, and we support our field offices' efforts to close such service gaps. The key to this objective's accomplishment is to share information with the field offices, encourage them to do their own market penetrations, needs and resource assessments, and to be supportive of their strategies and tactics to handle the issue.

We have made certain that the CDCs understand that rural development is a statutorily-mandated public policy goal for the 504 program with our debenture guaranty constituting up to $1 million on a rural project as opposed to being capped at only $750,000 on a non-rural project.

The 502 program continues to be focused on rural projects. Our new associate development company and probationary CDC initiatives will lead to more CDC/504 coverage in rural areas. We are encouraging more CDCs to increase their activities as Rural Economic Development Resource Centers. Participating lenders have been made aware of the SBA guaranty fee-sharing initiative for them to make 7(a) guaranty loans in rural areas.

SBA's Microloan Program is a relatively new and innovative initiative that was developed for situations where a small loan can make a difference. Loans range from less than $100 to a maximum of $25,000, averaging about $10,000. SBA has made funds available to nonprofit organizations for the purpose of lending to these smallest of small businesses. These organizations also provide management and technical assistance. Rural areas constitute at least part of the territory served by over 60 percent of the first 94 intermediaries selected to deliver our new Microloan Program.

The rural area service gaps obviously are being identified and narrowed. This is an ongoing, multi-year objective. Co-sponsored activities and joint financing of projects are becoming more common. In addition to better serving all of rural America, SBA has special emphasis on promoting world business development opportunities for minority group members, women, veterans, and those involved in value-added production, international trade, technology transfer and commercialization, and travel and tourism.

A key objective of the Office of Rural Affairs in economic development is to strive for equitable availability of SBA's assistance to rural small business. While less than 24 percent of the Nation's

population is in rural areas, approximately 26 percent of SBA loans in Fiscal Year 1992 were for rural-located businesses.

Though rural America's proportion of the national population continues to decline and its economic condition generally continues to lag behind that of much of urban and suburban America, SBA's rural loan activity level more than kept pace with the overall increased level of SBA activity. In fact, comparing Fiscal Year 1991 to Fiscal Year 1992, rural loans increased from 4,501 to 6,463. Their total values increased from $951 million to $1.5 billion. In sum, rural lending was up by 1,962 loans and by almost $553 million.

SBA loans appear to be quite successful in financing the growth of rural businesses, according to data from a comprehensive report by Price Waterhouse. Median employment growth in rural businesses that received SBA 7(a) guaranteed loans in 1985 was 232 percent over the next 4 years. Sales grew by 343 percent, taxes by 197 percent, and profits by 172 percent.

While businesses located in urban and suburban areas also showed tremendous growth, the expansion of rural businesses was highest in three categories—jobs, sales, and taxes—and was second in growth of profits. In my full statement a statement is included that breaks down these figures.

Mr. Chairman, that concludes my comments. I will be glad to answer any questions that you have.

[The prepared statement of Mr. Hertzberg, with Appendix No. 1, follows:]

Prepared Statement of Charles R. Hertzberg

Mr. Chairman and distinguished Members of the Committee. I am Charles R. Hertzberg, Assistant Administrator for Financial Assistance. Accompanying me are Allan S. Mandel, Director, Office of Rural Affairs and Economic Development and Danny J. Gibb, Rural Development Coordinator. It is a pleasure to be here today to discuss rural economic development and the role played by SBA's Office of Rural Affairs.

OFFICE OF RURAL AFFAIRS AND ECONOMIC DEVELOPMENT

The Office of Rural Affairs and Economic Development was created in 1991 by adding a rural development function to the Office of Economic Development, which administers the 504 guaranteed loan program. The first task was to develop an overall strategy for rural development. It was apparent from the outset that, in a time of shrinking budgets, SBA did not have the resources for a major, stand-alone rural development organization. Fortunately, we discovered that SBA was already very active across the country in rural development. In addition, we realized that a new wave of interest in rural development was taking place, with the creation of the Economic Policy Council Working Group on Rural Development, the President's Council on Rural America, a major study by the General Accounting Office, etc. We decided that the most effective use of our resources was to play an active role in Administration-wide rural development activities, to leverage our resources, and to fill special niches were we could.

In the central office, the Office of Rural Affairs and Economic Development has Dan Gibb dedicated full-time to rural activity, plus two others who have part of their efforts devoted to this area. The Office of Advocacy and the Office of Business Development each have several employees who devote significant amounts of time to rural development issues. Many other individuals in both the field and central offices are also involved, since many of our programs and projects have an impact on rural development, but it is impossible to quantify these efforts.

COORDINATION

The Office of Rural Affairs and Economic Development plays a very active coordinating role within the SBA. In the central office dedicated individuals from Rural

Affairs, Advocacy and Business Development are in daily contact on a large variety of rural projects and issues. We are also in frequent contact with our field offices. We receive monthly reports from our regions regarding plans and activities in their jurisdictions.

NATIONAL INITIATIVE ON RURAL AMERICA

The focal point for our Administration-wide activity has been active participation in the National Initiative on Rural America (NIRA), which has 18 federal agencies working with many State and local governments, Native American Tribal Councils and the private sector. SBA currently has four representatives who play significant roles. SBA also detailed a full-time employee to help staff the NIRA for 6 months.

Why is SBA so active in the NIRA support structure? Mr. Chairman, I believe there are several reasons:

- To leverage our resources.
- To make sure small business has a seat at the rural development table; and
- To do our part in a federal-wide initiative.

Mr. Chairman, rural development will not occur unless there is small business growth. But, there will be little opportunity for rural small business growth unless there is community development: especially education, training, and infrastructure. America needs a holistic approach to development, with SBA's role being on the economic development side.

SBA is playing a major role in the highly visible Kansas Rural Development Council demonstration project, in which SBA, the Department of the Treasury, the Department of Agriculture, the Department of Housing and Urban Development, the Economic Development Administration, and the Kansas Department of Commerce and Housing are developing a unified, seamless system to process and coordinate business loan applications for rural development projects. An SBA Certified Development Company is serving as a clearinghouse: screening project applications, deciding which agency or agencies can best handle the project, and seeing that the paperwork gets into the right hands. All agencies have agreed to use the SBA business loan application form as the basis document, augmented as necessary to meet specific agency requirements. This is a major project that addresses the long-standing impediment of how to cut through the red tape of a multitude of differing agency forms and requirements. It is attracting widespread attention, especially at the Department of the Treasury and at the Office of Management and Budget. More information is provided in Appendix 1 to this statement.

SBA chairs an NIRA task force that has looked into the capacity of local government in rural areas. They have issued a draft report on significant changes that can be made in the way that federal and state agencies operate that will allow local governments to better serve their constituencies. We are happy to forward the report upon its completion.

The focal point of the NIRA is the creation of state rural development councils. At this time there are 36 such councils that are up and running, with a senior SBA official on each. Many of the SBA representatives have been serving in leadership positions. Other testimony being presented here today describes these councils in considerable detail, so we will defer to the other witnesses on this very important subject.

SBA RURAL ECONOMIC DEVELOPMENT INITIATIVES

SBA tries to identify rural areas which appear to be under-served by SBA's financial (and other) assistance programs, and we support the field offices' efforts to close such service gaps.

The key to this objective's accomplishment is to share information with the field offices, encourage them to do their own market penetration, needs and resources assessments, and be supportive of their strategies and tactics to handle the issue.

We developed a new definition of "rural area," and it is used for all SBA programs. All counties and parishes are classified as being either metropolitan or nonmetropolitan. In SBA's regulations we say that all portions of nonmetro counties are rural. In addition, we allow our district offices the flexibility to classify specific areas within metro counties as rural, provided that they do not have more than 20,000 residents.

SBA's Certified Development Company Loan Program (CDC) provides permanent fixed rate financing for businesses needing to acquire industrial or commercial buildings, and to buy machinery and equipment. Under this program, a bank or other private lender provides 50 percent of project cost, and takes a first lien position. Forty percent of the project is financed by an SBA guaranteed debenture and

has a second lien position. The small business itself finances the remaining 10 percent.

A network of 400 Certified Development Companies serves as the program's foundation. They are non-profit organizations sponsored by private interests and by state or local governments. These CDC's organize the financial package and process, close and service the loans.

These loans offer small businesses the equivalent of corporate bond financing. They provide long terms, a low fixed rate on the SBA debenture, the ability to hedge interest rate risk, and a low equity injection—only 10 percent of the project cost.

We have made certain that the CDCS understand that Rural Development is a statutorily-mandated public policy goal for the 504 program, with our debenture guaranty being up to $1 million on a rural project (as opposed to being capped at only $750,000 on a non-rural project).

The 502 program continues to be focused on rural projects. Our new Associate Development Company and probationary CDC programs will lead to more CDC/504 coverage in rural areas. We are encouraging more CDCs to increase their activities as Rural Economic Development Resource Centers.

In the 7(a) Loan Guaranty Program, loans are made by private lenders, usually banks, and are guaranteed up to 90 percent by the SBA. On loans exceeding $155,000 the maximum guaranty is 85 percent. SBA can generally guarantee up to $750,000 of a private sector loan. These loans can be used for working capital, machinery, equipment, land and buildings. This program helps the lender make loans that do not fit under normal bank rules and is particularly helpful in cases where the business is a startup, the loan has a long maturity, or there is a concern about the sufficiency of collateral. The lender must affirm that it would not make the loan without the SBA guaranty, but under our quality lending criteria, the business must demonstrate to SBA's satisfaction that it can repay the loan from the cash flow of the business. Participating lenders have been made aware of the fee-sharing incentive for them to make 7(a) guaranty loans in rural areas.

SBA's Microloan Program is a relatively new and innovative initiative that was developed for situations where a small loan can make a difference. Loans range from less than $100 to a maximum of $25,000, averaging about $10,000. SBA has made funds available to non-profit organizations for the purposes of lending to these smallest of the small businesses. These organizations also provide management and technical assistance. This is very intensive hands-on assistance. Over 60 percent of the first 94 intermediaries selected to deliver our new Micro-Loan Program are serving at least some rural areas.

Our Surety Bond Guarantee, Minority Small Business and Procurement program areas are committed to rural development, as is our rejuvenated Small Business Investment Company program.

The rural area service gaps obviously are being identified and narrowed. This is an on-going, multi-year objective. Co-sponsored activities and joint financing of projects are becoming more common. This same networking and collaborating are being used by all SBA program areas and among our external resources, e.g., Small Business Development Centers, Small Business Institutes, the Service Corps of Retired Executives, etc. In addition to better serving all of rural America, SBA has special emphasis on promoting rural business development opportunities for minority group members, women, veterans, and those involved in value-added production, international trade, technology transfer and commercialization, and travel and tourism.

STATISTICS—EQUITABLE DISTRIBUTION OF RESOURCES

The Office of Rural Affairs and Economic Development was reconstituted to encourage business formation and retention, and to coordinate development activities in rural areas. A key objective was to strive for equitable availability of SBA's assistance to rural small businesses. While less than 24 percent of the nation's population is in rural areas, approximately 26 percent of our FY 1992 loans and 24 percent of the loan dollars were for rural-located businesses.

Though rural America's proportion of the national population continues to decline, and its economic condition generally continues to lag behind that of much of urban and suburban America, SBA's rural loan activity level more than kept pace with the overall increased level of SBA loan activity. In fact, comparing FY 1991 to FY 1992, rural loans increased from 4,501 (24 percent of total business loans) to 6,463 (25.7 percent). Their total values increased from $951 million (21.6 percent of total business loan dollars) to $1.504 billion (23.7 percent). In sum, rural lending was up by 1,962 loans and by almost $553 million.

COMPARATIVE GROWTH RATES

SBA loans appear to be quite successful in financing the growth of rural businesses, according to data from a comprehensive study by Price Waterhouse. Median employment growth in rural businesses that received SBA 7(a) guaranteed loans in 1985 was 232 percent over the next 4 years. Sales grew by 343 percent, taxes by 197 percent, and profits by 172 percent.

While businesses located in urban and suburban areas also showed tremendous growth, the expansion of rural businesses was highest in three categories—jobs, sales and taxes—and was second in growth of profits. [Please see Table.]

GROWTH OF MEDIAN VALUES OF SBA LOAN RECIPIENTS

By Urban, Suburban and Rural Location

Item	Urban			Suburban			Rural		
	1984	1989	Growth percent	1984	1989	Growth percent	1984	1989	Growth percent
Sales revenue	180	650	262	140	538	284	130	576	343
Total employment	4.1	10.1	150	4.1	10.1	149	3.0	10.1	232
Total taxes	24	43	79	16	38	138	11	31	197
Profit	36	77	115	27	95	251	25	68	172

Figures for sales revenue, total taxes, and profit are in thousands of dollars. Figures for employment are total full and part-time employment of the median firm. Growth figures are percent growth.

SUCCESS STORIES

Other research has turned up additional evidence of the success of SBA programs in rural areas. Two researchers from Cornell University, in a survey of 123 manufacturing firms in a rural 10 county region of central New York State, revealed a fascinating snapshot of what it takes to start a new firm, as well as the interesting observation that one-quarter of them received some type of assistance from the SBA when starting out. Among the findings:

- Over half of the founders said they got some help from a Federal, State, or local government agency. The agencies named most often were a local development agency and the Small Business Administration—each was named by a quarter of the firms. The kind of outside help most often mentioned was financing.
- Other agencies mentioned most often as being helpful included Small Business Development Centers and the Small Business Innovative Research program.

A survey of capital availability in urban and rural Idaho was carried out at Boise State University and revealed some interesting differences between the two types of areas.

- More rural lenders than urban lenders indicated they were unfamiliar with government financing programs, except for the SBA 7(a) program, where 50 percent of urban and 60 percent of rural lenders had a familiarity.
- The most commonly recognized and the most commonly used public financing program among small businesses in Idaho was the SBA 7(a) program, which had been used by 9 percent of urban and 17 percent of rural businesses in the State.

Copies of both studies are included in Appendices 2 and 3.

TRAVEL AND TOURISM

SBA has three representatives on the Federal Rural Tourism Task Force, headed jointly by the U.S. Travel and Tourism Administration of the Department of Commerce and the Extension Service of the Agriculture Department. Interest in promoting travel and tourism opportunities is high. SBA rural business loans in four travel and tourism-related SIC codes rose from 384 loans for $151 million in FY 1991 to 675

loans for $280 million in FY 1992. This year we expect to make 800 of these loans for $350 million.

In Appendix 4 we have included the SBA's testimony of July 19 on rural travel and tourism before a Subcommittee of the House Committee on Small Business.

AQUACULTURE

SBA is the advisor on small business issues to the statutorily-established Joint Subcommittee on Aquaculture, chaired by the Agriculture Department.

WORKING TOGETHER

The statutory mandate of the rural affairs office included the production of a catalogue of available Federal and State programs. With the assistance of our Office of Business Initiatives, Education and Training, the publication entitled Working Together: A Guide to Federal and State Resources for Rural Economic Development was published in late 1991. Five thousand copies were published and most have been distributed. We continue to receive many requests and favorable comments.

Mr. Chairman, this concludes my prepared remarks. I will be pleased to respond to questions.

February 1993
No. 2
Appendix #1

Kansas Council Clears the Way for Rural Development Agency

Cooperation Removes Impediments to Growth

National Initiative
on
Rural America

Federal, state, local, tribal governments, and private sector collaborating

The Federal Partners

The Departments of
Agriculture
Commerce
Defense
Education
Health and Human Services
Housing and Urban Development
Interior
Labor
Transportation
Treasury
Veterans Affairs

Appalachian Regional Commission
Environmental Protection Agency
National Endowment for the Arts
Small Business Administration
Tennessee Valley Authority

■

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Published by
National Rural Economic Development Institute
University of Wisconsin-Extension/Madison
608 / 262-9479

Two rural development projects in Kansas demonstrate the power of a state Rural Development Council to identify and resolve troublesome issues facing rural businesses and towns.

Rural entrepreneurs in Kansas seeking federal and state financial assistance for small businesses faced "a mountain of loan application forms, all requiring the same basic information, but all using different formats," reported Jack Alumbaugh, Council member and executive director of the South Central Kansas Economic Development District. When the problem came to the Council's attention in 1991, the members of the newly formed Council decided to resolve it. They worked together to create the "single loan application process"—the first rural development demonstration project in Kansas under the National Initiative on Rural America.

The story exemplifies how effectively a Rural Development Council can foster communication and cooperation among government agencies. When agency heads from all levels come to the table to discuss issues in the rural areas of their state, problems surface that otherwise would have remained buried. Council members committed to removing barriers to rural development can then collaborate, often with the help of federal agencies in Washington.

In Kansas, seven federal and state agencies have developed a single small business loan application form based on the Small Business Administration (SBA) 7(a) guaranty loan form. The agencies and departments involved are: Kansas Department of Commerce and Housing, Kansas Association of Rural Electrical Cooperatives, Small Business Administration, Farmers Home Administration, Rural Electrification Administration, Economic Development Administration, and Housing and Urban Development. Each agency directly involved in financial assistance has reviewed the SBA form in light of its own agency's needs. The EDA's Economic Development Districts are also participating, with the South Central Kansas EDD currently screening potential businesses to test the new form and process.

> "Doing business in rural Kansas is going to be a lot easier because of this project."

Federal support has been crucial to the project's success. The Monday Management Group, comprising senior representatives of over 35 federal agencies who oversee the Rural Development Initiative at the national level, "has been vitally interested and has helped bring the loan application problem to the agencies' attention," said Norma Daniels, chair of the Kansas Rural Development Council. "They have played a key role in the process of allowing our project to develop."

"Treasury has also helped immensely," said Council chair Daniels. That department suggested that Kansas adopt an electronic loan application process developed by the Texas Federal Rural Development Council. The electronic process will track all the entities involved in lending and serve as a "paperless companion" to the single loan application form. After testing the single form, the Kansas Council will return the final draft to the Treasury Department for official confirmation.

According to Jack Alumbaugh, the benefits of the project both for Kansas businesspeople and participating lending agencies are these:

- Easy access to multiple funding opportunities;
- More joint funding by federal and state agencies;
- Wiser investment of public funds in economic development, through standardized credit criteria and evaluation;

→

■ Reduced time and paperwork in filing applications and servicing loans.

"Doing business in rural Kansas s going to be a lot easier because of this project," said Alumbaugh. ■

The second successful project recently reported by the Kansas Rural Development Council demonstrates the Council's ability to serve as mediator and facilitator when conflict halts a project.

The people of Halstead, Kansas, plagued by flooding along the Little Arkansas River for more than 100 years, began in 1974 to develop a $9.4 million flood control project. Townspeople painstakingly obtained the necessary appropriations and contributions from federal, state, and local levels. They acquired land to build levees and let contracts. But conflicts about how to treat a registered historical site in Halstead created an impasse; progress stopped, threatening the availability of state funds for the project and the enactment of a $4,000/day contract delay clause. The work of eight years and the safety of Halstead citizens and property were in jeopardy.

Because the project involved several levels of government, the Kansas Rural Development Council agreed to intervene in the Halstead flood control project as a demonstration. Council members contacted all the parties involved and, with a full understanding of the conflicts, convened a conference. The meeting resolved most of the differences among those concerned, but a major obstacle remained: while a 60-day period is allowed for ensuring fulfillment of the National Historic Preservation Act's regulations, the town of Halstead had less than 30 days before the contract delay clause would come into play.

In early July, 1992, the Kansas Council went into high gear. With the help of the National Advisory Council for Historic Preservation and the good offices of Senator Bob Dole and Congressman Dan Glickman, the Rural Development Council managed to conclude the review process within 30 days, and a final memorandum of agreement was signed in early August. The Council's ability to smooth the way saved the town of Halstead $120,000 in needless expenses, and the flood control project on the banks of the Little Arkansas is underway. ■

The Council's ability to smooth the way saved the town of Halstead $120,000 in needless expenses.

For additional information on rurol development efforts in Kansos, please contact Steven Bittel, Executive Director, at 913 / 296-1847.

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Ruth C. Young and Joe D. Francis

Who Helps Small Manufacturing Firms Get Started?

Many Federal and State programs are designed to help new small manufacturing firms organize and survive. Yet we know little about how new, often innovative, manufacturing firms start out and the kind of support they need and get. Based on surveys of 123 small manufacturers in 10 mostly rural counties of New York State.

Startup of a new manufacturing firm requires not only financial commitment on the part of the founder, but a tremendous investment of time and initiative and a willingness to work for little or no salary at the beginning. This is not a surprise to most of us, but two other aspects of startups we found in our study of manufacturing firms are less well known:

- Over half of the firms received support from Federal, State, or local government.

- Other manufacturing firms also helped. They are generally companies where the founders worked before, acquiring experience producing the same or similar products and where the founder may have acquired the idea for the new product. The new firm has continuing relations with this firm and other manufacturing firms.

A related fact, which has important implications for rural development, is that most firms in which founders gained their experience were located in the same county as the new firm, the county in which the founders live and work. This and other research has told us that people do not move to begin new companies. They start them where they are.

Founders Contribute Much More Than Ideas

Starting a new business is basically a self-help proposition requiring great sacrifice by the founder. Most founders we interviewed (85 percent) helped finance their firms with their own funds. About 37 percent obtained bank loans (secured by physical property), and 20 percent more had loans from family and friends and other sources. They also sacrificed salary. At the beginning, 69 percent received no salary at all, a token salary, or living expenses only. And they made a great investment of time. At the beginning, only 14 percent worked a normal work week of 40 hours or fewer. A third worked 65 hours or more per week.

They also contributed ideas. Half of the founders invented their original product, developed it from a product produced in a company where they worked before, or invented it as a result of customer needs. In the last case, they saw that a product required by one customer as a special piece of work could be used by others as well. The second main source of product ideas was well-known products in the public domain. Over two-thirds of founders used their own contacts or those from a previous job to market their product, chiefly by word of mouth.

Most got little help on management from others. Most bankers and economic developers believe a sound business plan outlining goals and specific means of reaching them evidences competent management essential for a business. Such a plan is a requirement for bank and government loans. Fifty-three percent of the firms studied had no formal business plan. Of the 47 percent that had such a plan, only a fifth got help from outside the firm in writing it.

The founders also depended on themselves or their own bank credit for funds. When additional funds had been obtained since the firm's founding, 60 percent of the new firms obtained bank loans (secured with capital goods), 25 percent used the founder's own funds, and 29 percent used the company's own internal

---

Ruth Young is senior research associate and Joe Francis is associate professor, Department of Rural Sociology, Cornell University. This research was sponsored in part by the New York State Agricultural Experiment Station at Cornell University through Hatch Grant 440, by USDA Regional Project NE162, and by a cooperative grant from USDA on rural entrepreneurship.

© Gary Packard

Engineering and manufacturing personnel at Electric Clutch and Brake Co., Elmira, NY, check out prototype for military contract.

Table 1—Contributions to Startup from Founder's Previous Firm

	Percent
He worked in a company producing same or similar product	82
Some other company helped him get started	25
Used previous job contacts for marketing	24
Original product was the same as former company's product	40
Owner invented part or all of original product	47
Total number	123

funds. Smaller proportions obtained funds through a stock offering (16 percent), an SBA loan (13 percent), or other sources.

In sum, founders of manufacturing firms made considerable investments of money, time, initiative, and ideas, and, when one considers failure rates of new businesses, took great risks. They drew on family and friends as sources of money and as business partners.

When Founders Needed Help, Here's Where They Turned

Beyond self-reliance, a second important source of help to those starting new business is an array of public and private agencies. Over half (55 percent) of the founders we interviewed said that they got some help from a State, Federal, or local government agency. The agencies named most often were a local development agency and the Small Business Administration, each named by a quarter of the firms. Other State and Federal agencies help small businesses too. In the study area, the agencies mentioned most often by founders were the Small Business Development Centers, the New York State Job Development Agency, the New York State Department of Commerce, and the Small Business Innovation Research Program (funded by the Federal Government and the State).

The kind of outside help most often mentioned in our interviews was in regard to financing. Other kinds of help included information about markets, personnel training, site selection, zoning problems, export information, assistance with construction (including funding it), and the writing of business plans. Most businesses had help from a single agency, but 14 firms had help from more than one agency, most frequently a local development agency combined with the SBA, or one of the agencies mentioned above. A third of the founders said they had been contacted by an agency offering help, generally the same agencies as mentioned above, as well as the Chamber of Commerce.

Over half of the founders have plans for future expansion of space, products, personnel, or their customer base. About a quarter expect help with expansion from financial institutions and public agencies. When asked about the focus of future directions, over half named marketing and changes in the product line, but all kinds of other concerns were named in smaller proportions. The firms' most important needs for the future were money and marketing.

The firms included in the study also received a good deal of help from private professional sources, most of which was local. Almost all (96 percent) used legal help, about three-quarters of which was by local attorneys. Eighty-five percent used accountants, about half of whom were local. Seventy-five percent used printers, more than half of whom were local. They also used a number of other services to a lesser extent: advertising, personnel, technical, and management. Most often, these too were local. Sometimes a company told us that it used professional help in some large city because, for example, a large city law firm was known for its high-technology clients, and therefore for the specialized advice and experience it could give such companies. But many firms were unaware of such a possibility.


Photo © Gary Packard

Running the quality control equipment at Electric Clutch and Brake, Elmira, NY.

A final kind of outside help was technical information and information about competitors. The most frequent sources for this technical information were technical journals (56 percent), trade shows (40 percent), and competitors (29 percent). About a fifth also named universities and professional journals. Similar sources were named when asked about how they learned about the competition. The most frequently named source was trade shows, then competitors, technical journals, and customers.

Thus the firms depend on the community for a good deal of help. Though we have been aware of the many public programs organized by government in behalf of business, we have not had an estimate up until now as to the proportion of firms reached by such help. At least for one region of New York State, we now have an estimate. Both government and the professional community played important roles in organizing and maintaining the new businesses.

Help Comes From Network of Other Manufacturers Too

The press has carried many stories of spinoffs from one or another large company. Our survey findings go beyond that: nearly all the new manufacturing firms had roots in another company, and many continue to survive as part of a network of companies.

Nearly all founders we interviewed had previous work experience in a company that makes a product similar to their firm's product. No matter what the founder's education, typically he had hands-on work experience before starting his own business. About two-thirds of the founders worked in larger

corporations beforehand.

Nearly all the companies where the founders worked before were located n the same county or a short distance from the new firm. New firms are located where their founders live. This suggests that a region's new firms will resemble the old, implying that radical change in a region's industrial composition is not likely to take place by starting new firms.

When the founder had partners, half of the time they were fellow workers from the previous firm. A quarter of the companies stated that their former employer helped them get started with help such as financing, gifts of inventory or equipment, or a patent. Other companies, including competitors, also provided technical information.

Marketing, too, largely depended on the founder's past experiences. The chief executive officer of the new company (normally the founder) did the marketing, and it most often involved using his own contacts acquired in his past job. The company nearly always had competitors, but almost never competed with the company where the founder worked before. Half of the firms had 50 or fewer customers.

The firms studied were also closely tied into the wider industrial network in several important ways. Two-thirds sold products to other manufacturing firms, and four-fifths bought parts from other firms. Over half subcontracted to other firms for parts, assembly, overflow work, or other services. Almost half did subcontract work for other firms.

The nature of their production reinforces the idea that these small firms fill special market niches. Sixty percent did custom work, and 48 percent produce short batches with minor modifications. Few produced identical short batches, and only 20 percent mass produced.

All of these findings support the notion that small manufacturing firms develop special market niches where they produce specialized, often custom-made, products for a small number of other manufacturing companies, and compete only with a few other small companies like themselves. This seems to be true regardless of the age of the firm, and is reinforced by changing policies in large companies. From them we hear that they are streamlining operations and finding it more economical to buy many parts, products, and services from firms outside the companies than to produce them within the company. They are also inaugurating just-in-time inventory policies, and working closely with a small number of suppliers on quality control. We also hear about these relationships from the small suppliers.

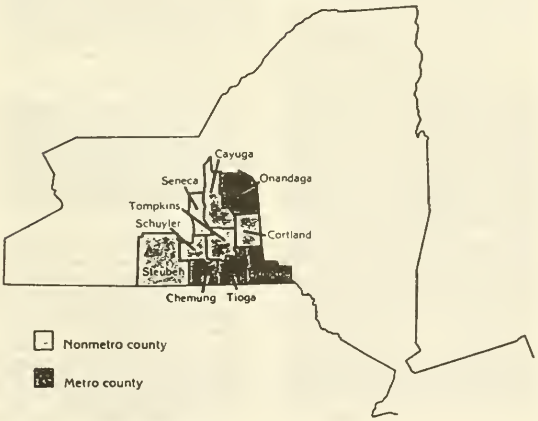
These networks of relations among manufacturing firms have been left out of calculations by those devising programs aiding business and by banks that lend to business. This new picture of the industrial economy is also relevant to those formulating policies for employment and employee benefits. Smaller companies cannot pro-

About The Survey

We interviewed founders of 123 manufacturing firms in a 10-county region of central New York State. Eighty-four percent had 50 employees or fewer. Cumulatively, 38 percent of the firms were 5 years old or less, 62 percent 10 years or less, and 81 percent less than 20. The interviews, usually 1-1/2 hours in length, were structured, but included open-ended questions. We tried to find all high-technology manufacturing firms less than 10 years old, along with a quota of low-technology and older firms. Many of the new firms studied did not appear on any list and had to be located by word of mouth. Therefore we might have missed a few.

Because of the restricted study area and the exploratory nature of the research, we are now beginning to replicate and expand the study in wider areas. Until then, we confine our generalizations to this region and can only raise questions that need to be answered for other areas.

The study region Includes both rural and urban areas but is mostly rural. Six of the 10 counties are nonmetro. Dividing the region Into 155 minor civil divisions (MCD), subcounty areas designated by the Bureau of the Census, the population is totally rural in 75 percent of the MCD's and over 60 percent rural in another 5 percent. The largest cities in the study area are Syracuse (Onandaga County), Binghamton (Broome County), and Elmira (Chemung County).



vide the employment stability or benefits packages the large companies do. Large firms tell us that is one important reason why small companies can produce more economically and sell to industry more cheaply.

Implications for Public Policy

We know that many government programs are supposed to help business, but we have not known how many firms they have reached. We still do not know how effective the programs are, whether each agency reaches its targeted clientele, or how they all work together. But our survey found that such programs helped over half of the new manufacturing firms in our sample, and that is a start. Whether that help made much difference to the survival of the firm is an issue that still needs to be evaluated.

The findings that businesses are started where founders live and that founders nearly always acquired work experience in a firm producing similar goods are particularly relevant for rural and regional development. If founders gained experience in firms similar to the new one, this means that new firms are going to resemble the old ones. New firms in industries not already in the region are not likely to develop. If this continues to be the case when we replicate the study in other regions, these results suggest that it is very difficult to change the fundamental industrial structure in an area by small firm startups. To achieve that would require some larger change, such as the arrival of a new large corporation or government facility, or an intensive outreach program from a technical university to promote new types of small businesses.

A branch plant may not serve the purpose unless it provides the experience needed and possibly uses local suppliers. Modest internal efforts within a region are not likely to change the fundamental structure of local industry or bring new industries to the region. Rural development efforts, then, might best be directed toward enhancement of the businesses and resources already in the areas rather than trying to strike out in some new direction.

The interdependent relations between large firms in the study area and the smaller firms that supply goods and parts to them may indicate a restructuring within industries. If this is true generally, the restructuring has several implications for public policy. We found that small firms buy from and sell to other small firms. Economic developers tell us that firms like their suppliers to be no more than a 1-2 hour truck drive away. The relations between a firm and the suppliers are often close, and involve working together on problems, for instance, of quality control or specially designed products. Thus within a region we may expect to find networks of large firms and their suppliers in related industries buying from and selling to each other. How a new small firm fits into these networks has a lot to do with its ultimate success.

This role of small firms as supplier to large firms means that small and large firms become dependent on one another. For the small firms we studied, that dependence seems to mean a more precarious position than in the past.

If founders of new firms get their experience in older firms in the same area, does this development process have implications for rural areas? In New York State, metropolitan areas are expanding their influence so that some rural counties adjacent or close to metro areas can now participate in metro economies. But in some more remote rural areas, far from metro influence, and lacking an existing

Table 2—Firm's Present Relations with Other Manufacturing Firms

	Percent
Sells to other manufacturing firms	60
Subcontracts to other firms for parts, finishing, or overflow work	60
Buys parts from other companies	93
Gets technical information from competitors	29
Has competitors	86
Has 50 or fewer current customers	44
Finds out about competition from other producers	31
Total number	123

Do High- and Low-Technology Firms Differ?

We occasionally hear of efforts to introduce high technology into areas that lack high-technology manufacturing. Can such efforts hope to succeed? Evidence from the present study suggests that they usually cannot. High-technology companies originate in the same way as low-technology companies: Their founders have had work experience in a similar company. They develop a market niche and are tied into a network of other companies. These firms differ from low-technology companies mainly in their founder's more advanced education, which is often in science or engineering. Seventy-eight percent of founders of high-tech firms were college educated, compared with 41 percent of founders of low-tech firms. And most high-tech founders' previous experience was in high-tech rather than low-tech companies, since founders typically worked in a firm like the one they start up (74 percent of low-tech firm founders, 84 percent of the high-tech).

High-tech firms differ from low-tech in that they more often have invented their original product (55 percent, compared with 22 percent in low-tech firms); they more frequently do designing (79 percent, compared with 28 percent); they have more frequently added new original inventions (56 percent in high-tech and 14 percent in low-tech firms); and more frequently have upgraded or modified a product (81 percent in high, 21 percent in low-tech). If an area wishes to have innovative firms that are therefore likely to increase productivity, high-tech firms are desirable. But areas where high-tech firms, high-tech government installations, or at least technical universities do not already exist that can spawn founders of new high-tech firms and link with them in buying and selling networks, are not likely to have such high-tech firms start up.

industrial base of their own, industrial development cannot be expected in the normal course of events. Change in such areas would require radical change brought about by external events that could change the course of the area's economic history.

If the industrial economy is restructuring along the lines we have found here, with large firms expanding their use of small suppliers as they streamline operations, the number of jobs in large firms may shrink while those in small firms expand. Due to the high proportions of startup firms that fail, such jobs may be less stable. Benefits paid by the small firms we studied were far less than those of large firms. Few small firms have pension plans, for example. Ultimately, then, questions of benefit replacement will be questions of public policy.

Our findings suggest that the fortunes of many small firms are bound up with those of the large corporations they depend on and their changing policies. This suggests that programs, public or private, to help small businesses should take these interdependent relationships into account in planning intervention or assessing the likelihood of success. Many small firms are not independent of the economy immediately surrounding them, and, depending on what befalls it, may or may not survive regardless of their own managerial competence. They live in a small world and it impinges on them directly.

The web of interdependent relationships among manufacturing firms, large and small, suggests that competition is much more limited than we like to believe, since markets and sources of supply are both limited and specialized. Each small firm has only limited opportunities for competing, and its fate is tied to that of other firms. RDP

For Additional Reading . . .

Giovanni Dosi, "Sources, Procedures and Microeconomic Effects of Innovation," *Journal of Economic Literature* XXVI (Sept. 1988):1120-1171.

Gregory R. Gajewski and Douglas Duncan

1988 Drought Did Not Dry Up Credit

Following close on the heels of the 1980's farm financial crisis, the 1988 drought aroused concerns that hard-pressed lenders might desert farmers and other rural borrowers. The evidence suggests, however, that farm and rural credit continues to be readily extended, even in areas hit hardest by the drought, and that 1988 was a relatively good year for farm and rural lenders. The combination of drought-induced rises in crop prices, crop stocks left over from earlier years, and Federal disaster assistance seems to have kept farm losses well below what was initially feared.

Severe droughts wipe out farmers' crops, and can leave them unable to repay the money they borrowed to plant. If the financial losses are widespread, farm lenders may be forced out of business. A collapse of this nature can ripple through farm-dependent rural communities as farmers put off spending for local purchases. A big drop in farmer spending can push other rural businesses under, along with local banks. Rural hydroelectric, transportation, and recreational businesses can likewise incur drought-related losses, leaving them unable to repay their lenders as well.

This did not happen during the 1988 drought for a number of reasons. The 1988 drought hit more than the United States. Farm output in Canada and South America was also depressed by a lack of rain. As a result, world crop prices rose dramatically. Many U.S. farmers had accumulated large grain stocks, surplus production from earlier in the decade, that they sold at drought-induced higher prices. For farmers who were hit by the drought and did not have stocks, a Federal safety net cushioned the blow to their income.

The picture is less clear for rural businesses that may have incurred drought-related losses. But judging from rural commercial bank performance in drought-affected areas, drought-related losses were probably small (fig. 1).

Were farm and rural lenders able to absorb drought-related loan losses? And did the lenders continue to provide an adequate supply of credit? The answers seem to be yes, although some drought-related loan losses may not show up until 1990.

1988 drought hit farmers hard

10,000-15,000 farmers face debt repayment problems
Wheat crop down by 14%
Corn crop down by 30%
Soybean crop down by 20%

But prices rose

Wheat prices up 46%
Corn prices up 31%
Soybean prices up 25%

Overall farm income was roughly unchanged, but went down

13% in the Northern Plains
23% in the Corn Belt

And the Federal Government stepped in to help with

$ 3.9 billion in disaster assistance payments
$ 1.3 billion in crop insurance payments
$ 3.4 billion in FmHA drought-related rural business and industry loan guarantees

And lenders were mostly unaffected

Bank loan losses were down
Bank vulnerability was down
Banks' return on equity was up
16 ag/rural banks failed (but none in drought counties)

Gregory Gajewski is an economist with the Commodity Economics Division, ERS, and Douglas Duncan is an agricultural economist with the Agriculture and Rural Economy Division, ERS.

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Appendix #3

Surveys Reveal Differences in Capital Availability between Rural and Urban Idaho

by W. David Patton and
Jeffery Duggan

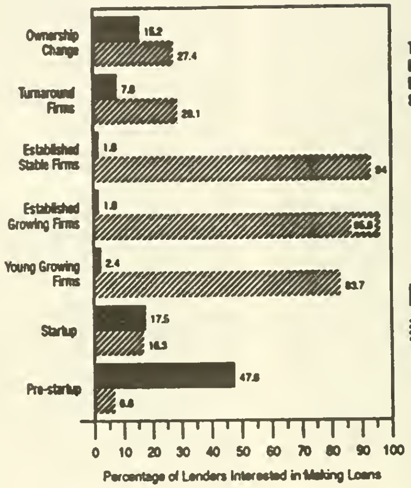


Table 1: Lender Interest in Lending to Businesses by Stage of Development

"We normally require at least two years of profitable operations before we are interested in financing a small business. The gap I see is the time lapse between startup and the future two years of operations."

—respondent to the Boise State University bank survey.

Capital is the fuel of economic growth. It is required at every step of business development: for the establishment of a new business concept, for the development of an innovative product, for expansion into new markets or for readjusting to changing market conditions. When capital is unavailable, growth stops. While capital availability is not the sole determinant of economic development, it is critical to economic growth.

Research indicates there are many small, new, innovative, and otherwise financially sound firms which have been unable to obtain capital in conventional markets.[1] This suggests that a "capital gap" may exist—a gap between what is needed by business enterprises and what is available from lending sources such as banks and other traditional lenders. This may be especially true for rural areas.

While such a gap may exist between the capital available and the capital needed for traditional ventures at every stage of development, it may be especially evident and pernicious to the entrepreneurial firm, which is particularly in need of capital and operates in a risk environment. As Samuel Hubbard recently noted, "The lack of risk capital has come to be viewed by many public policy makers as the most significant impediment to economic diversification in the region [the Pacific Northwest]."[2]

The state of Idaho is experiencing a phenomenon similar to that found in states across the country; urban economic regions are enjoying growth and prosperity while rural regions are languishing as no-growth, or worse, negative growth, economies. A reason for the disparity between the levels of urban and rural prosperity may be the lack of diversification found in rural economies. Rural economies in Idaho are characterized by heavy local dependence on either agriculture, mining or timber. The specific rural markets have not generated significant numbers of diversified firms; firms which could cushion the impact caused by a recession hitting one of these primary resource industries. The amount of capital available statewide, and especially in rural Idaho could be limiting the development of the needed diversified firms.

The Idaho Capital Availability Surveys

Two surveys were conducted in the summer of 1989 to determine if a deficiency of investment and debt capital existed in Idaho. Boise State University's Public Affairs Program undertook them in cooperation with the Northwest Policy

urpose: To illustrate the lack of availability of rural credit and the lack of information among borrowers & lenders about government programs.

Table 2:
Percentage of Businesses A[illegible]rting Trouble O[illegible]ing Financing

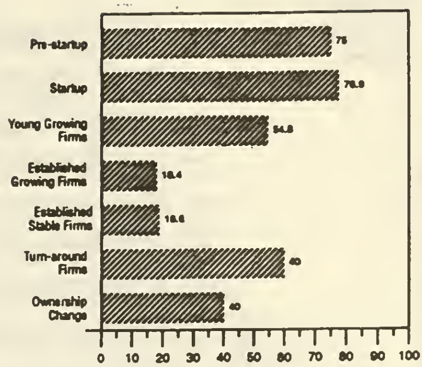


Table 3:
Percentage of Total Number of Loans by Category

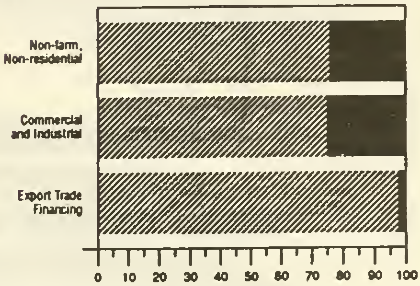
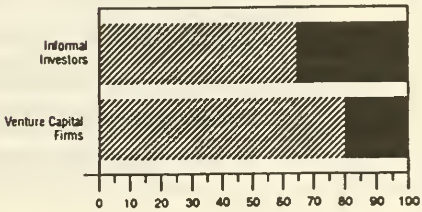


Table 4:
Percentage of Total Marketing Activity by Nontraditional Lenders



Center at the University of Washington. The Northwest Policy Center had also authorized similar studies in Washington, Oregon and Montana. The first survey was sent to all the banks and savings and loan offices in the state. The second survey went to 2,000 businesses in Idaho, supplemented by an additional 200 questionnaires sent to a targeted subset of small, young firms. The results show some interesting similarities and differences between attitudes and practices in the rural and urban parts of the state.

The business survey returns were dominated by firms in the "established stable" category. Reasons for this were probably three-fold. First, more businesses fall into this category than in any other category in Idaho. Second, established firms are larger and tend to have the personnel and the resources to answer a questionnaire. Third, and most disturbing, startup and young, growing firms are often difficult to locate. The are absent from most of the general advertising media and they frequently operate from a home or a portion of an a office. Also, a large percentage of new businesses fail. Our survey could only reach those firms currently in operation, although finding out about the characteristics of the failed businesses would have also been very helpful in the effort to develop an understanding of the question of capital availability in Idaho.

The Survey Conclusions

Survey responses led to three major conclusions. First, a capital gap exists for young, startup companies in both rural and urban [illegible]. Second, [illegible]rms in rural parts of the state may have greater difficulty finding capital than firms in urban areas. Third, there is a severe shortage of information about the government assistance programs available to lenders and businesses, particularly those operating in rural Idaho.

The Startup Capital Gap

All Idaho banks and other lending institutions expressed a pronounced interest in marketing their loans to mature businesses that have established credit, steady income flows, and successful business track records. Conversely, the banks were very reluctant to lend to businesses that had no business history, i.e. the firms in the crucial startup phase of development.

Practically all of the traditional lending institutions expressed this preference, whether they were headquartered in urban or rural regions (Table 1).

Lender marketing activity confirmed this conclusion. Businesses in the "established" phase of development witnessed more marketing activity on the part of lenders than did businesses in the startup or turn-around phases of growth.

With traditional lenders often requiring that loan recipients have two or more years of experience in business, firms in the early phases of their business development must find their startup and operating funds from other sources. Survey responses indicated that young businesses were most inclined to use personal savings to start and initially operate their firms. Older companies were more inclined to depend on debt financing for funding their operating expenses.

As might be expected, a majority of the businesses in the startup phase expected difficulty obtaining financing in the future (Table 2). This expectation is a natural outcome of the reluctance of traditional lenders to lend funds to new businesses and instead provide debt financing to established firms, which, in turn, forces young firms to rely heavily on personal financing. In contrast, only a minority of the established firms anticipated having any trouble obtaining needed capital from lenders.

The Rural Capital Gap

Several characteristics of the overall rural capital market influence the availability of capital in the rural parts of Idaho. First, the state's rural areas are less diversified, and therefore much more dependent on primary industries such as forest products, agriculture and mining. Sometimes virtually the entire economy is tied to just one of these industries. Also, the number of banks that are locally-owned or are headquartered in the rural areas that they serve has decreased with the advent of bank mergers and consolidation. Loan decisions affecting rural communities are more frequently made at the urban headquarters, often by people with little knowledge of the area's problems and who have an urban perspective.

Economic conditions, in terms of job growth and income levels, are less prosperous in rural Idaho than they are in urban areas. The lender survey demonstrated

Table 5: Urban Businesses' Opinions of the Affect of Factors on Business

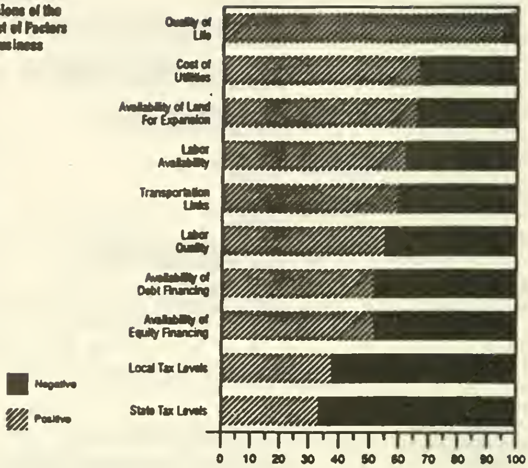


Table 6: Rural Businesses' Opinion of the Affect of Factors on Business

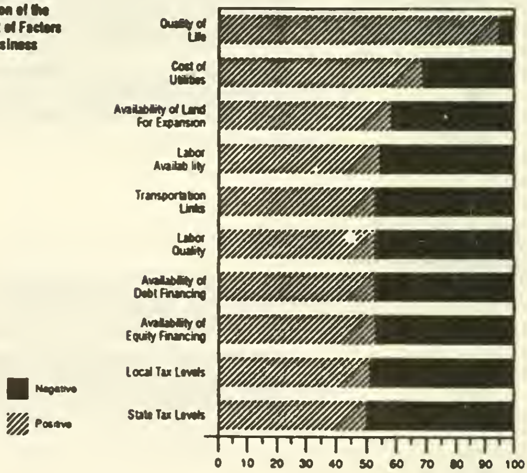


Table 7:
[illegible]

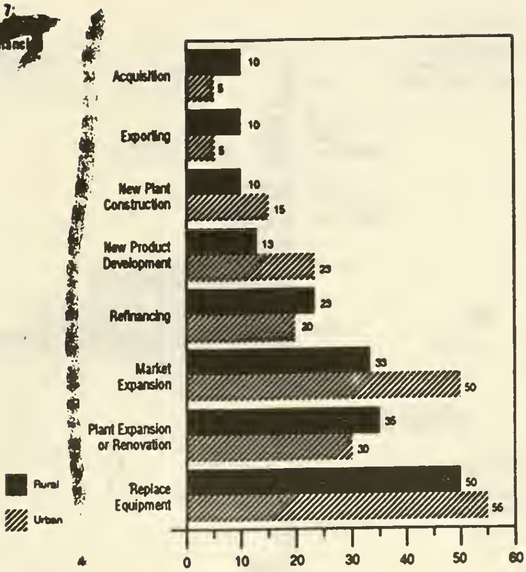
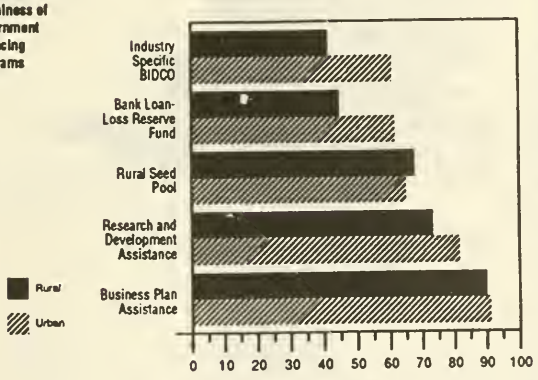


Table 8:
Usefulness of
Government
Financing
Programs



that many lenders believe the condition of the economy affects the decision to make loans. Of those expressing this view, most came from the rural areas where the local economies are not keeping pace with the state's urban economies.

Urban and rural lenders were very competative in the types of loan products they offered to business customers. However, the actual number of loans was heavily weighted in favor of the urban lenders. Although the number of rural and urban banks were fairly evenly divided (urban 49 percent, rural 51 percent), the percentage of the total number of loans falling into each major lending category was overwhelmingly dominated by the urban lenders (Table 3). This is at least partially explained by the size of the banks in terms of the level of their deposits, and the number of businesses in proximity to the urban banks. However, in one lending area conducive to diversification, export trade financing, urban lenders held 98.5 percent of all loans made in the state.

Alternative sources of business capital, such as venture capital firms and informal investors, were not, in general, found to be active in Idaho. However, when urban and rural lenders were compared, the percentage of rural lenders indicating that they engaged in nontraditional financing activity was small compared to indications of such activity from urban lenders (Table 4).

Urban businesses expressed very different priorities when asked about the factors which affected their businesses than did Idaho's rural businesses. Both urban and rural firms expressed an overwhelming opinion that Idaho's quality of life was the most positive factor affecting their business. Urban firms then favored the area's low utility costs as next most important factors affecting business. The lowest rated factor affecting business given by urban businesses were state and local tax levels (Table 5). Rural businesses had different opinions. They favored the availability of land and labor as the second and third most important factors. The factors that rural firms said had the greatest negative impact on them were poor transportation links and the availability (or lack of availability) of debt financing (Table 6).

Urban firms said that their greatest need for financing involved finding money to replace equipment and to expand their markets. Rural firms agreed on the need for financing to replace equip-

ment and then said they needed the loans to renovate or expand their plant facilities (Table 7). Another result of the lack of startup capital in rural areas is that rural regions have only about half of the percentage of startup firms that urban regions do.

The Information Gap

The survey asked both lenders and businesses questions aimed at determining the level of their knowledge about government financing and assistance programs already in existence. The lenders indicated that the most familiar and useful form of government business assistance was help in the development of business plans as well as other management assistance. Other preferences about government assistance were more divided along geographical lines. Urban banks more than the rural banks tended to favor research and development assistance and loan-loss reserve funding. The rural banks favored the establishment of rural seed capital pools more than did the urban lenders (Table 8).

Regarding the familiarity of lenders with government financing programs, more urban banks than rural banks have actually used government financing programs (Table 9). Asked about their familiarity with these financing programs, more rural lenders than urban lenders indicated they were unfamiliar with each of the government financing program listed (Table 10), except for the Small Business Administration's SBA 7a program.

When the survey asked businesses which government assistance programs they considered to be beneficial to their businesses, the largest percentage responded that [illegible] assistance was the most useful. Small firms in rural ares also rated assistance in dept financing as an important government program.

Businesses in Idaho were generally unfamiliar with government programs designed to assist small business. The most commonly recognized public financing program was the Small Business Administration's SBA 7a program. Beyond that, over half of Idaho's businesses were not aware of any other public financing assistance (Table 11). This lack of information is directly related to the low level of government financing program use. The most utilized public program

Table 9:
Banks Which Have Used Government Financing Programs Within the Past Year

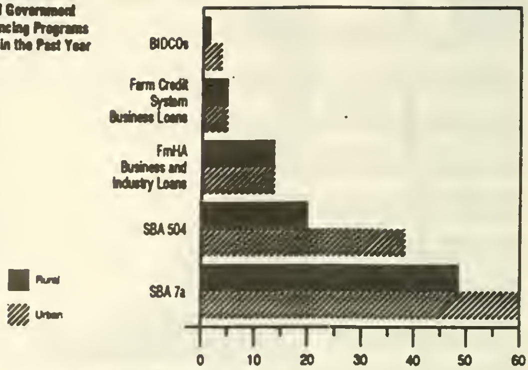


Table 10:
Percentage of Banks Unfamiliar With Government Financing Programs

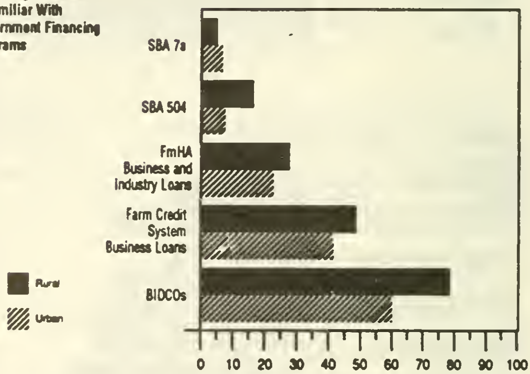
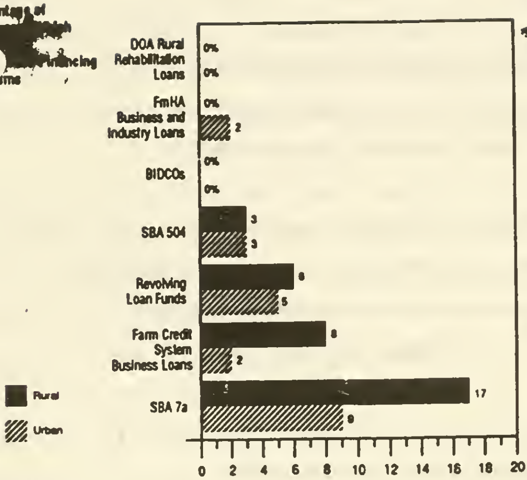
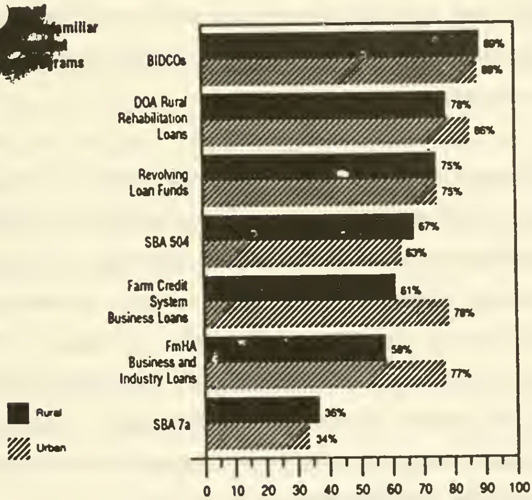


Table 11: Percentage of [redacted] Financing Programs



[redacted]ble 12: [redacted]miliar [redacted]rams



[redacted] Busi-[redacted]ho's [redacted] SBA 504 [redacted]. A large percentage of rural businesses than urban businesses were shown to have used the government loan programs. This may also support the conclusion that rural businesses are having more difficulty obtaining capital than urban firms; rural businesses may be turning to government programs when more traditional sources of financing are unavailable.

The information gathered from Idaho's bankers and businesses offer some interesting conclusions about the availability of capital for business growth and diversification. Efforts are now being prepared to investigate the capital gaps found in the survey responses.

Also, we need to uncover regarding the ability of young, small firms to find the needed capital to begin a new business. An examination is needed of the experience of various states in filling capital market gaps using public incentives and resources. The capital gap in rural areas also requires attention. Since capital flows toward the greatest return are there ways of enhancing market incentives in order to encourage the investment of capital in rural economies? These issues must be addresses if rural economies are to compete for capital as well as labor, and, in turn retain their economic viability.

[1] Clarke, Marianne K., *Revitalizing State Economics*, Center for Policy Research and Analysis, National Governors' Association, 1986, p. 50. See also, Peter Kwass, *Financial Markets and Small Business Finance in Washington State*, Mt. Auburn Association, 1989, p. 2.
[2] Hubbard, Samuel T., *Entrepreneurial Development and Risk Capital Formation: Options for Intermountain States*, Northwest Policy Center: University of Washington Graduate School of Public Affairs, 1989, p. 4.

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STATEMENT OF

G. TILL PHILLIPS

ACTING REGIONAL ADMINISTRATOR

REGION VI - DALLAS, TEXAS

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE COMMITTEE ON SMALL BUSINESS;

SUBCOMMITTEE ON PROCUREMENT, TAXATION & TOURISM

UNITED STATES HOUSE OF REPRESENTATIVES

ALEXANDRIA, LOUISIANA

JULY 19, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

GOOD MORNING AND THANK YOU FOR THE INVITATION TO BE HERE WITH YOU TODAY AND THE OPPORTUNITY TO DISCUSS TOURISM AND OTHER ECONOMIC DEVELOPMENT IN RURAL AREAS.

IN ALL OF MY CONVERSATIONS WITH SBA ADMINISTRATOR ERSKINE BOWLES, I HAVE COME AWAY WITH A CONVICTION THAT HE IS A FRIEND OF RURAL AMERICA BECAUSE OF HIS FAMILY AND PROFESSIONAL BACKGROUND. SPEAKING FOR MYSELF, I AM PLEASED ABOUT THIS BECAUSE SO MUCH OF MY OWN BACKGROUND ADMITTEDLY BIASES ME IN THE DIRECTION OF SMALL TOWN, RURAL AMERICA. IT IS A GOOD FEELING TO BE ABLE TO TALK ABOUT SUCH ISSUES WITHOUT HAVING TO FIRST EXPLAIN OR JUSTIFY THEM. FOR THE VERY SAME REASONS, IT WILL BE A PLEASURE THIS MORNING TO COVER THIS SUBJECT WITH THIS COMMITTEE AND THE PANELS.

FIRST, BY WAY OF GENERAL BACKGROUND, I WILL COVER THE SBA NATIONAL SCOPE OF ACTIVITIES AND INVOLVEMENT..... SECONDLY, THE REGION VI FLAVOR, AS IT WERE.....AND FINALLY, SOME THOUGHTS ON HOW WE CAN FOCUS EXISTING SBA RESOURCES ON THIS TASK IN LOUISIANA.

WE DO NOT KNOW EXACTLY WHAT TOURISM RELATED INDUSTRIES SPEND DIRECTLY ON TOURISM BECAUSE THE STANDARD INDUSTRIAL CLASSIFICATION CODE SYSTEM IS NOT REFINED TO THAT LEVEL AND THERE ARE NO SURVEYS WHICH BREAK OUT THIS INFORMATION FOR SMALL BUSINESS. THIS IS AN AREA THE AGENCY COULD RESEARCH FURTHER. NONETHELESS, SBA CONSIDERS TOURISM AS AN OPPORTUNITY FOR SMALL BUSINESS. WE WORK WITH TOURISM-RELATED BUSINESSES THROUGH OUR REGULAR PROGRAMS AND COORDINATE WITH OTHERS TO PROMOTE SMALL BUSINESS TOURISM DEVELOPMENT. THE FOCAL POINT IN THE SBA IS THE OFFICE OF RURAL AFFAIRS AND ECONOMIC DEVELOPMENT WHICH WAS ESTABLISHED IN 1991. ONE OF THIS OFFICE'S RESPONSIBILITIES IS TO COORDINATE WITH OTHER FEDERAL AGENCIES ON RURAL ECONOMIC DEVELOPMENT. IT MAINTAINS LIAISON WITH THE UNITED STATES TRAVEL AND TOURISM ADMINISTRATION AND NUMEROUS OTHER AGENCIES TO ASSIST SMALL BUSINESSES IN RURAL AREAS WITH TOURISM PROMOTION AND DEVELOPMENT. SPEAKING FROM A REGIONAL PERSPECTIVE, I HAVE FOUND THIS OFFICE EXTREMELY HELPFUL AND RESPONSIVE IN THESE MATTERS.

ENCLOSED WITH MY WRITTEN STATEMENT IS A LISTING OF SBA TRAVEL AND TOURISM LOAN ACTIVITY GOING BACK TO FY 1986 AND ON THROUGH THE FIRST QUARTER OF THIS FISCAL YEAR. IF YOU LOOK AT THE FULL 7 YEARS OF DATA (EXCLUDING THE INCOMPLETE 1993 DATA), IT CLEARLY SHOWS THAT

SUCH LOANS HAVE INCREASED SIGNIFICANTLY SINCE FY 1990, INDICATING AN OVERALL HEIGHTENED ACTIVITY IN THIS INDUSTRY. MORE IMPORTANTLY, over THE PAST 7 YEARS, THE RURAL TRAVEL AND TOURISM LENDING HAS MORE THAN DOUBLED IN THE NUMBER OF LOANS WHILE THE DOLLAR AMOUNT HAS NEARLY QUADRUPLED. I BELIEVE THIS CLEARLY SHOWS THE MARKET TREND, AND WITH THE PROPER ASSISTANCE AND SUPPORT, WE SHOULD BE REASONABLY CONFIDENT THAT WE CAN REINFORCE IT. WE WOULD BE WORKING WITH WHAT IS ALREADY A VERY POSITIVE MOMENTUM.

SBA PARTICIPATES AS A MEMBER IN THE NATIONAL INITIATIVE ON RURAL AMERICA TO FOCUS ON HOW ALL FEDERAL AGENCIES CAN WORK WITH STATE RURAL DEVELOPMENT COUNCILS TO EMPHASIZE TOURISM AS A DEVELOPMENT TOOL. AS YOU ARE AWARE, MR. CHAIRMAN, THE SBA CENTRAL OFFICE STAFF RECENTLY BRIEFED YOUR STAFF COUNSEL ON TOURISM AND BARRIERS TO TOURISM DEVELOPMENT. WE ARE PLEASED, ALSO, TO KNOW THAT CONGRESS IS WORKING ON AUTHORIZATION TO HOLD A WHITE HOUSE CONFERENCE ON TOURISM. WE HOPE THAT THIS HEARING WILL PROVIDE IDEAS FOR THE LIST OF PROJECTS BEING CONSIDERED BY THE CONGRESSIONAL CAUCUS ON TOURISM AND THE FEDERAL RURAL TOURISM TASK FORCE IN WHICH SBA, OUR LENDING PARTNERS, AND OUR FUNDED RESOURCES -- SERVICE CORPS OF RETIRED EXECUTIVES (SCORE), SMALL BUSINESS INSTITUTES (SBI), SMALL BUSINESS DEVELOPMENT CENTERS (SBDC) -- CAN PARTICIPATE.

AND, FINALLY, ON THE NATIONAL SCHEME OF THINGS, THE SBA SIGNED A MEMORANDUM OF UNDERSTANDING IN JUNE OF LAST YEAR WITH THE U.S. DEPARTMENT OF AGRICULTURE IN SUPPORT OF THE PRESIDENT'S INITIATIVE FOR RURAL DEVELOPMENT (NOW CALLED THE NATIONAL INITIATIVE ON RURAL

AMERICA),WHICH INVOLVES 18 FEDERAL DEPARTMENTS AND AGENCIES, STATE AND LOCAL GOVERNMENTS, NATIVE AMERICAN TRIBAL COUNCILS, TRADE ASSOCIATIONS, PUBLIC INTEREST GROUPS, ACADEMIA AND THE PRIVATE SECTOR. RURAL TOURISM PROMOTION IS AN INTEGRAL COMPONENT OF THIS EFFORT.

TO IMPART MORE OF A SOUTHWEST REGIONAL FLAVOR TO MY COMMENTS, THERE ARE A NUMBER OF RURAL INITIATIVES I WOULD LIKE TO TELL YOU ABOUT EVEN THOUGH THEY ARE NOT RELATED SOLELY TO TOURISM OR ONLY IN LOUISIANA.

- ECONOMIC DEVELOPMENT STUDIES BY SBI SCHOOLS....OVER THE LAST 2 YEARS, OUR SBI SCHOOLS HAVE COMPLETED APPROXIMATELY 15 ECONOMIC DEVELOPMENT STUDIES IN RURAL AREAS. BEFORE THAT, THIS TYPE OF ACTIVITY WAS NOT AUTHORIZED. ONE OF THESE WAS COMPLETED BY NORTHWEST STATE UNIVERSITY HERE IN LOUISIANA. I BELIEVE THIS LEVEL OF ACTIVITY CAN BE INCREASED AND I WILL ADDRESS THAT IN MORE DETAIL WHEN WE TALK ABOUT LOUISIANA RESOURCES SPECIFICALLY.

- LOUISIANA

  THE SBA DISTRICT OFFICE, SINCE THE BEGINNING OF THIS FISCAL YEAR, HAS BEEN INVOLVED DIRECTLY IN 16 DIFFERENT RURAL EVENTS. THE SBDC REPORT DESCRIBES MORE THAN 17 MAJOR EFFORTS IN RURAL DEVELOPMENT AND IS PART OF A BRIEFING BOOK AVAILABLE FROM THE SBA DISTRICT OFFICE ("STATE INITIATIVES ON RURAL LOUISIANA"). HERE ARE A FEW EXCERPTS. NORTHEAST LOUISIANA SBDC DIRECTOR,

DR. PAUL DUNN, IS INVOLVED IN THE DELTA PILOT WHICH WILL EMPHASIZE MINORITY AND RURAL ECONOMIC DEVELOPMENT. NICHOLLS STATE UNIVERSITY SBDC OBTAINED A GRANT WITH KISATCHIE NATIONAL FOREST FOR A DRIVING TOUR BROCHURE WHICH COVERS THE CANE RIVER PLANTATION COUNTRY. THEY ALSO MAINTAIN A SOLID WORKING RELATIONSHIP WITH 14 LOCAL AND REGIONAL ECONOMIC DEVELOPMENT GROUPS. THE SOUTHEASTERN LOUISIANA SBDC JOINS SCORE ON A JOINT CIRCUIT RIDING PROGRAM IN FOUR OUTLYING RURAL COMMUNITIES. THE LOUISIANA SBDC AND THE SBA DISTRICT OFFICE ARE MEMBERS OF THE LOUISIANA INDUSTRIAL DEVELOPMENT EXECUTIVES ASSOCIATION. IN EACH QUARTER FOR THE PAST 4 YEARS, THEY HAVE CONDUCTED TRAINING ON RURAL ECONOMIC DEVELOPMENT AND RECENTLY VOTED TO CONTINUE THIS ACTIVITY ON A SEMIANNUAL BASIS. IN ADDITION, THE SBDC AND SBA ARE ACTIVE MEMBERS OF THE LOUISIANA STATE RURAL ECONOMIC DEVELOPMENT COUNCIL WHICH INCLUDES FEDERAL AND LOCAL GOVERNMENT MEMBERS ALONG WITH LOCAL ECONOMIC DEVELOPMENT ENTITIES. THEIR ROLE IS TO DEVELOP AND IMPLEMENT A RURAL DEVELOPMENT STRATEGIC PLAN. THE NOTEBOOK AND THE LIST OF PARTICIPANTS IN THESE ORGANIZATIONS IS BEING SENT UNDER SEPARATE COVER TO THE COMMITTEE.

o SBDC RURAL INITIATIVES

IN ARKANSAS THE SBDC, WORKING WITH A CONSORTIUM OF OTHER ORGANIZATIONS, HELPED THE TOWNS OF WEST HELENA AND HELENA SUCCESSFULLY ESTABLISH A MARKETPLACE AT THE PORT OF HELENA.

THIS, IN TURN, ATTRACTED TWO TOURIST STEAMBOATS TO MAKE REGULAR STOPS WITH ENOUGH BUSINESS TO KEEP THE MARKETPLACE OPEN AND THRIVING DAILY.

THE WEST TEXAS SBDC IN LUBBOCK HAS A FOUR-PAGE LISTING OF PROJECTS; SOME EXCERPTS: WEST TEXAS ALLIANCE (FOUR COMMUNITIES) CREATED THE ASSOCIATION OF ORGANIC COTTON GROWERS CONFERENCE, ATTRACTING WORLDWIDE ATTENTION. OVER 20 FOREIGN COUNTRIES AND 15 STATES ATTENDED THE CONFERENCE.

THE PANHANDLE SBDC HELPED BORGER, TEXAS CREATE A RURAL SMALL BUSINESS INCUBATOR. THE BIG COUNTRY COMMUNITY DEVELOPMENT FEASIBILITY STUDY ON OSTRICH FARMING AND A SLAUGHTER PROCESSING PLANT WAS CONDUCTED BY THE SBDC. WINTERS, TEXAS TURNED TO THE SBDC TO ASSIST IN OBTAINING A LOAN TO BUY OUT A SEED COMPANY WHICH IN THIS TOWN OF 3000 MEANT RETAINING 25 TO 27 JOBS.

THE PARIS, TEXAS SBDC IS WORKING WITH FIVE RURAL COUNTIES TO ATTRACT OUT-OF-TOWN SHOPPERS AND TOURISTS WITH BED & BREAKFAST, HISTORICAL AND CULTURAL ATTRACTIONS AND ANNUAL EVENTS.

THE TEXAS DEPARTMENT OF AGRICULTURE, A&M UNIVERSITY AND THE DALLAS SBDC ARE INVOLVED IN DEVELOPING ACTIVITIES RELATED TO ADDED VALUE FOR FOOD PRODUCERS, PROCESSORS AND MANUFACTURERS.

THE UNIVERSITY OF HOUSTON SBDC (AT VICTORIA) IS INVOLVED WITH THE WHARTON COUNTY ELECTRIC COOPERATIVE AND THE EL CAMPO CHAMBER OF COMMERCE & AGRICULTURE TO OPERATE THE COASTAL PLAINS AGRI-BUSINESS INCUBATOR. THEY HAVE LISTED PRODUCTS AND PROJECTS FROM ALLIGATORS TO WATER BUFFALO, FROM BULLFROGS TO SHIITAKE MUSHROOMS.

AND, FINALLY, THE SAN ANTONIO SBDC HAS A RURAL CIRCUIT RIDE PROGRAM WHICH REACHES 15 RURAL COMMUNITIES, SPENDING AS MANY AS 4 DAYS EACH MONTH IN SOME OF THE COMMUNITIES.

o NEW MEXICO

IN COLLABORATION WITH THE STATE GOVERNOR OF NEW MEXICO ROTARY CLUBS, THE SBA ADVISORY COUNCIL, THE STATEWIDE SBA CERTIFIED DEVELOPMENT COMPANY, THE SBDC AND SCORE, THE SBA DISTRICT OFFICE IS BRINGING ECONOMIC AND BUSINESS DEVELOPMENT INFORMATION TO THE RURAL AREAS OF THE STATE. COMPLEMENTING THIS EFFORT, THE KELLOGG FOUNDATION, THE NEW MEXICO EXTENSION SERVICE AND THE SBA ARE REACHING OUT TO THE SEVEN NORTHERN COUNTIES OF NEW MEXICO.

o OKLAHOMA

BOTH SCORE AND THE SBDC IN OKLAHOMA HAVE A DISTINCTIVE RURAL FOCUS. EACH MONTH OVER 100 RURAL COMMUNITIES ARE CONTACTED AND VISITED. SCORE, WITH SBDC SUPPORT, HAS DEVELOPED AN "ADOPT-A-COMMUNITY" PROGRAM TO TARGET COMMUNITIES OF 1500 TO 7500 WITHIN A 50 MILE RADIUS OF TULSA. THEY WORK WITH THE

KEY BUSINESS AND COMMUNITY LEADERS TO ASSESS THE COMMUNITY'S STRENGTHS AND WEAKNESSES AND RECOMMEND STEPS TO REVITALIZE THEIR LOCAL ECONOMY.

o TEXAS

THANKS TO THE LEADERSHIP OF GOVERNOR ANN RICHARDS, THE TEXAS AGRICULTURAL FINANCING AUTHORITY (TAFA) WAS CREATED TO BOOST RURAL DEVELOPMENT. THE SBA REGIONAL OFFICE DEVELOPED, IN TURN, AN AGREEMENT WITH THE STATE TO WRAP OUR GUARANTEE LOAN PROGRAM AROUND THEIRS TO PROVIDE OPERATING CAPITAL TO RURAL CLIENTS WHO HAVE A TAFA LOAN FOR LAND, BUILDING AND EQUIPMENT. PRIOR TO THE TAFA ARRANGEMENT, A STATEWIDE SBA CERTIFIED DEVELOPMENT COMPANY WAS FORMED BY THE TEXAS DEPARTMENT OF COMMERCE, UNDER THE EXECUTIVE DIRECTION OF MS. KATHY BONNER, IN ORDER TO COVER THOSE RURAL SECTIONS OF THE STATE WHICH HAD NO ACCESS TO ECONOMIC DEVELOPMENT FINANCING.

ONE OF THE MOST IMPRESSIVE EXAMPLES OF RURAL ECONOMIC DEVELOPMENT IN OUR REGION, SO FAR, SHOWS WHAT IT TAKES TO BE SUCCESSFUL IN MOST RURAL DEVELOPMENT PROJECTS, NAMELY: FEDERAL, STATE AND LOCAL GOVERNMENT AGENCIES WORKING TOGETHER, AND IN CONJUNCTION WITH THE PRIVATE SECTOR. IN THE SMALL, WEST TEXAS TOWN OF PETERSBURG (POPULATION 1300), DUE TO UPS AND DOWNS OF COTTON CROPS, MANY GINS HAVE GONE OUT OF BUSINESS. IN PETERSBURG, THE CITY MANAGER, THE SOUTH PLAINS ASSOCIATION OF GOVERNMENTS, THE AMERICAN BANK OF NEARBY WOLFORTH, THE HALE COUNTY COMMISSIONERS COURT, THE U.S. ECONOMIC DEVELOPMENT

ADMINISTRATION AND THE U.S. FARMERS HOME ADMINISTRATION ALL MADE IT POSSIBLE TO CONVERT THE GIN INTO A SUNFLOWER SEED FACILITY FOR CLEANING, BAGGING AND SHIPPING. A TOTAL PACKAGE OF $1,248,000 PROVIDED A SEASONAL LINE OF CREDIT AND A LOAN FOR LAND, BUILDING, MACHINERY AND EQUIPMENT. AN IMPORTANT PROPERTY WENT BACK ON THE TAX ROLLS; 23 FULL-TIME JOBS WERE CREATED IN THIS SMALL RURAL COMMUNITY; THE SURROUNDING AREA FURTHER STABILIZED WITH AN ADDITIONAL AGRICULTURAL MARKET FOR LOCAL FARMERS; AND, FINALLY, AN EXPORT MARKET TO SPAIN, MEXICO, TURKEY, TAIWAN AND ITALY WAS CREATED.

AT THE BEGINNING, I STATED MY RURAL BACKGROUND AND BIAS WHICH IS BY WAY OF STATING MY PERSONAL AND FAMILY HISTORY. ON THE CAREER AND PROFESSIONAL SIDE, MY COMMITMENTS ARE JUST AS STRONG. I AM CURRENTLY SERVING AS AN OFFICER ON THE TEXAS STATE RURAL DEVELOPMENT COUNCIL AND A VOTING MEMBER OF THE FOOD AND AGRICULTURE COMMITTEE (FAC). I MENTION THIS ONLY TO INDICATE THAT RURAL DEVELOPMENT DOES NOT HAPPEN WITHOUT THE INTERPLAY OF AGENCIES AND THE PERSONAL COMMITMENT AND INVOLVEMENT OF FEDERAL, STATE AND LOCAL INDIVIDUALS. ONLY BY WORKING TOGETHER WILL THE NEEDED WORK GET DONE.

WHILE THIS IS NOT AN EXHAUSTIVE LIST, I BELIEVE IT INDICATES THE COMMITMENT AND INTENT OF THIS REGION TO HAVE A VIABLE RURAL DEVELOPMENT OUTREACH PROGRAM.

AS TO WHAT CAN BE DONE FURTHER IN LOUISIANA, I BELIEVE THERE IS A UNIQUE OPPORTUNITY TO DESIGN A RURAL DEVELOPMENT STUDY FOR LOUISIANA WHETHER STATEWIDE OR, INSTEAD, LIMITED TO A DESIGNATED LOCATION SUCH AS ALEXANDRIA AND THE IMMEDIATE SURROUNDING AREA. IT WOULD REQUIRE THAT A CONSORTIUM OF SBI SCHOOLS BE INVOLVED, IN PART, WITH APPLICATION FOR GRANTS FROM THE DEPARTMENT OF DEFENSE (DOD) TO EVALUATE THE RAMIFICATIONS OF DEFENSE DOWNSIZING AND, IN PART, WITH COMMUNITY ASSESSMENTS AS KEY ELEMENTS OF ECONOMIC DEVELOPMENT STUDIES. I HAVE ALREADY TALKED TO THE FORMER PRESIDENT OF THE SMALL BUSINESS INSTITUTE DIRECTORS ASSOCIATION (SBIDA), MS. GWEN FONTENOT, ABOUT APPLYING FOR THE DOD GRANTS. THAT PROCESS IS MOST LIKELY A LONGER-TERM PROJECT, WHEN COMPARED TO WHAT WE CAN DO WITH FY 94 FUNDING FOR THE 11 LOUISIANA SBI SCHOOLS (LISTING ATTACHED). THE LATTER IS WHAT I WOULD SUGGEST WE PURSUE NOW. VERY SIMPLY, EACH SCHOOL WOULD RECEIVE AN ALLOTMENT OF CASES INTENDED FOR ONE-ON-ONE ASSISTANCE TO A SMALL BUSINESS. SOME OF THOSE CASES COULD BE USED FOR RURAL ECONOMIC DEVELOPMENT PURPOSES. WHAT WOULD BE REQUIRED IS FOR THE DISTRICT OFFICE TO CALL A MEETING OF THE SBI DIRECTORS AND REACH AN AGREEMENT ON WHICH SCHOOL WOULD BE DESIGNATED TO DESIGN THE STUDY, INCLUDING BREAKOUT OF ASSIGNMENTS TO OTHER SCHOOLS, TAKING INTO ACCOUNT THEIR LOCATIONS AND PROXIMITY TO THE COMMUNITIES INVOLVED. THE SCOPE OF THE STUDY, AS I MENTIONED, COULD BE ON A VERY NARROW AREA OR ENCOMPASS A BROADER GEOGRAPHY. EACH SCHOOL THEN WOULD BE AUTHORIZED TO RECEIVE PAYMENT FROM THE SBA FOR THEIR PORTION OF THE WORK. THIS WOULD BE A FIRST IN OUR REGION AND IS CERTAINLY A FEASIBLE PROJECT.

FOR ONE-ON-ONE COUNSELING WITH SMALL BUSINESSES INVOLVED IN TOURISM, LOUISIANA HAS 203 SCORE MEMBERS WHO VOLUNTEER THEIR TIME AND CAN BE REACHED THROUGH THEIR CHAPTERS THROUGHOUT THE STATE (LISTING ATTACHED).

AND, FINALLY, AS THE LEAD CENTER DIRECTOR OF THE LOUISIANA SBDC, DR. JOHN BAKER IS A STRONG ALLY AND ADVOCATE OF SMALL BUSINESS IN LOUISIANA. HE DIRECTS A STATEWIDE NETWORK OF 16 SITES (LISTING ATTACHED). NORMALLY, A SPECIAL STUDY ON TOURISM COULD BE PROPOSED AND FUNDED. LEVEL BUDGET FUNDING FOR THE SBDC THIS YEAR PRECLUDES THIS APPROACH. HOWEVER, IF THERE ARE CERTAIN WORKLOADS OUTLINED IN THE COOPERATIVE AGREEMENT FOR FY 1994 WHICH DISTRICT DIRECTOR ABBY CARTER AND DR. BAKER AGREED COULD BE DEFERRED IN FAVOR OF A SPECIAL PROJECT, THE SCOPE OF WORK COULD BE CHANGED TO REFLECT THIS WITHOUT AN INCREASE IN THE LEVEL OF FUNDING. THIS IS SOMETHING THAT CAN BE EXPLORED ON A LOCAL BASIS, AS OPPOSED TO SEEKING FURTHER AUTHORIZATION OR APPROPRIATION.

IN THE MEANTIME, THE SBDC IS AVAILABLE TO COUNSEL AND TRAIN ANY SMALL BUSINESS IN LOUISIANA WHICH, OF COURSE, INCLUDES THOSE INVOLVED IN RURAL TRAVEL AND TOURISM.

I MENTIONED AT THE BEGINNING THE FINANCIAL ACTIVITY OF SBA IN TOURISM AND TRAVEL BUSINESSES. HERE IN LOUISIANA THERE ARE SIX CERTIFIED DEVELOPMENT COMPANIES (LISTING ATTACHED) WHOSE CHARTER OF ACTIVITY CERTAINLY INCLUDES RURAL ECONOMIC DEVELOPMENT LOANS. ALTHOUGH NONE OF THEM HAVE BEEN INVOLVED IN THE TYPE OF PROJECT

SIMILAR TO THE WEST TEXAS SUNFLOWER COMPANY, THEY ALL HAVE THE FLEXIBILITY TO DO SO. THAT IS NOT TO SAY THERE HAS BEEN NO RURAL LOAN ACTIVITY IN LOUISIANA. QUITE THE CONTRARY. SINCE 1990, THE NUMBER OF LOANS IN THE RURAL AREAS HAVE MORE THAN DOUBLED, GOING FROM 41 TO 95 SO FAR THIS FISCAL YEAR.

MR. CHAIRMAN, I BELIEVE THAT THERE IS CERTAINLY NO LACK OF DEDICATION ON THE PART OF SBA AND OUR RESOURCE PARTNERS TO THE MISSION OF RURAL DEVELOPMENT. IN FACT, I BELIEVE THERE IS MUCH MORE GOING ON THAN WE REALIZE OR CAN CAPTURE AT ONE TIME. I BELIEVE OUR CHALLENGE IS TO PUSH THE COMMUNICATION AND EXCHANGE OF INFORMATION TO ALLOW THE COMMUNITY LEADERS TO BE MORE AWARE, THAN PERHAPS THEY ARE, OF WHAT OTHERS ARE DOING. THIS WILL ALLOW THEM TO FIND AND PICK THE PROJECTS THAT ARE FITTED TO THEIR COMMUNITIES, RATHER THAN BELIEVING THEY ARE ALONE OR THAT THERE IS NO EXPERIENCE THEY CAN DRAW ON.

THANK YOU AGAIN FOR THE INVITATION TO THIS HEARING AND I ASSURE YOU WE ARE READY TO HELP IN ANY WAY WE CAN.

ATTACHMENTS SECTION:

- SBI SCHOOLS LISTING
- SCORE CHAPTERS LISTING
- SBDC SUBCENTERS LISTING
- CERTIFIED DEVELOPMENT COMPANIES LISTING

LOUISIANA SMALL BUSINESS INSTITUTES

College of Business Administration Louisiana State Univ/Baton Rouge College of Business Administration Baton Rouge, LA 70803	Dr. Charlie D'Agaostino 504/384-5555
Louisiana State Univ/Shreveport College of Business Administration 8515 Youree Drive Shreveport, LA 71105	Charlotta Nordyke 318/797-5144
Louisiana Tech University College of Business Box 10318 Tech Station Rustin, LA 71272	Mr. Art Gilbert 318/257-3537
Loyola University Dept. Management & Marketing P.O. Box 78 New Orleans, LA 70118	Dr. Ronald Schroeder 504/865-2788
McNeese State University Dept. Management & Marketing P.O. Box 90508 Lake Charles, LA 70601	Paul Arnold 318/475-5529
Northeast Louisiana University Management & Marketing College of Business Administration ADM 2-104 Monroe, LA 71209	Dr. Paul Dunn 318/342-1224
Northwestern State University College of Business Administration Natchitoches, LA 71457	Mary Lynn Wilkerson 318/357-5161
Southeastern Louisiana University Management & Marketing College of Business Administration P.O. Box 522-Univ Station Hammond, LA 70401	Dr. Joseph Miller 504/549-3831
University of New Orleans College of Business Administration Lake Front Campus New Orleans, LA 70148	William P. Galle, Jr. 504/286-6481
The University of SW LA Marketing Department College of Business Administration P.O. Box 4-3490 WSL Station Lafayette, LA 70504	Dr. Robert Franz 318/231-6348

Xavier University
Dept of Management & Marketing
7325 Palmetto
New Orleans, LA 70125

Dr. Charles Chekwa
504/483-7675

LOUISIANA CHAPTERS
SERVICE CORPS OF RETIRED EXECUTIVES (SCORE)

DISTRICT MANAGER

Harvey Broussard, D/Mgr.	Chamber of Commerce 804 East St. Mary's Blvd. Lafayette, LA 70505 318/233-2705

SCORE CHAIRPERSON
CHAPTER # & LOCATION

Art Landry Chp 141	Baton Rouge Chamber of Commerce 564 Laurel Street Baton Rouge, LA 70821 504/275-2119
Satellite of Baton Rouge Hammond SCORE Chapter Donald James	Hammond Chamber of Commerce P.O. Box 1458 Hammond, LA 70404 504/345-4457
B. J. Landry Chp 302	Lafayette Chamber of Commerce 804 East St. Mary Blvd. Lafayettee, LA 70505 Office: 318/233-2705
Charles Thomas 213	Lake Charles Chamber of Commerce 900 N. Lakeshore Drive Lake Charles, LA 70601 318/433-3632
Marion Lake 044	Small Business Administration 1661 Canal Street, Suite 2000 New Orleans, LA 70112 Office: 504/589-2354
Robert Mogg Chp.279	Shreveport Chamber of Commerce 400 Edwards Street Shreveport, LA 71101 Office: 318/226-8521
Slidell SCORE Desk	Slidell Chamber of Commerce 118 West Hall Slidell, LA 70460 Office: 504/643-5678
Alexandria SCORE Desk Julius McLaurin	Chamber of Commerce 802 3rd Street Alexandria, LA 71301 318/442-6671

LOUISIANA SMALL BUSINESS DEVELOPMENT CENTERS

LOUISIANA	STATE DIRECTOR & PHONE #
Louisiana Small Business Development Center State Director Northeast Louisiana University Monroe, LA 71209-6435 (Ouachita Parish)	Dr. John Baker, Director 318/342-5506 FAX #318/342-5510 Dr. Lesa Lawrence, Assoc State Director
International Trade Center (ITC) SBDC 368 Business Administration University of New Orleans Lakefront Campus New Orleans, LA 70148 (Orleans Parish)	Ruperto Chavarri, Director 504/286-6978
Capital SBDC(Southern University) SBDC 9613 Interline Avenue Baton Rouge, LA 70809 (East Baton Rouge Parish)	Greg Spann, Director 504/922-0998
LSU-Shreveport Small Business Development Center College of Business Administration University Drive Shreveport, LA 71115 (Caddo Parish)	James Hicks Director 318/797-5144
Louisiana Tech University Small Business Development Center Box 10318 Tech Station Ruston, LA 71271-0046 (Lincoln Parish)	Art Gilbert, Director 318/257-3537
Loyola University Small Business Development Center College of Business Administration Box 134 New Orleans, LA 70118 (Orleans Parish)	Dr. Ronald Schroeder Director 504/865-3474
McNeese State University Small Business Development Center College of Business Administration Lake Charles, LA 70609 (Calcasieu Parish)	Paul Arnold, Director 318/475-5529

Nicholls State University Small Business Development Center College of Business Administration P.O. Box 2015 Thibodaux, LA 70310 (Lafourche Parish)	Wes Hull 504/448-4242
Northeast Louisiana University Small Business Development Center College of Business Administration Monroe, LA 71209 (Ouachita Parish)	Dr. Paul Dunn, Director 318/342-1224
Northwestern State University Small Business Delelopoment Center College of Business Administration Natachitoches, LA 71497 (Natchitoches Parish)	Mary Lynn Wilkerson Director 318/357-5611
Southeastern Louisiana University Small Business Development Center College of Business Administration Box 522, SLU Station Hammond, LA 70402 (Tangipahoa Parish)	Danny Monistere Director 504/549-3831
Southern University Small Business Development Center College of Business Adminstration New Orleans, LA 70126 (Orleans Parish)	Mr. Jon Johnson Director 504/286-5308
University of New Orleans Small Business Development Center College of Business Administration Lakefront Campus New Orleans, LA 70148 (Orleans Parish)	Dr. Ivan J. Miestchovich Director 504/286-6978
University of Southwestern Louisiana Small Business Development Center College of Business Administration P.O. Box 43732 Lafayette, LA 70504 (Lafayette Parish)	Mr. Dan Lavergne, Director 318/262-5344
SBDC Satellite England Air Force Base, Bldg 1901, Suite 205, P.O. Box 13587 Alexander, LA 71315-3587	Ms. Kathy Hunter Coordinator 318/484-2123
Louisiana Electronic Assistance Program College of Business Administration Northeast Louisiana University Monroe, LA 71209	Contact: Dr. Jerry Wall 318/342-1219

LOUISIANA'S SBA CERTIFIED DEVELOPMENT COMPANIES
(as of 9/30/92)

Ark-La-Tex Investment & Development Corporation
P.O. Box 37005
Shreveport, LA 71133
Parishes: Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine and Webster
Certified: June, 1983
Contact: M.D. LeCompte 318-226-7557
SBA 503/504 Loan Approvals: FY 1992 = 0
Since Inception YTD = 11 @ $4,166,000

JEDCO Development Corporation
3330 N. Causeway Blvd., Suite 430
Jefferson, LA 70123
Parish: Jefferson
Certified: August, 1990
Contact: Carol Ward 504-830-4860
SBA 503/504 Loan Approvals: FY 1992 = 4 @ $1,239,000
Since Inception total YTD 10 @ $2,302,000

Kisatchie-Delta Regional Planning and Development District, Inc.
5212 Rue Verdun Street
Alexandria, LA 71315-2248
Parishes: Avoyelles, Catahoula, Concordia, Grant, La Salle Rapides, Vernon and Winn
Certified: October, 1982
Contact: Lawrence Jeansonne 318-487-5454
SBA 503/504 Loan Approvals: FY 1992 = 1 @ $497,000
Since Inception total YTD 8 @ $2,347,000

Louisiana Capitol Certified Development Company, Inc.
2014 W. Pinhook Rd., #100
Lafayette, LA 70502
Parishes: Lafayette
Certified: December, 1983
Contact: Al Hodge 318-234-2977
SBA 503/504 Loan Approvals: FY 1992 = 9 @ $1,423,000
Since Inception total YTD 30 @ $6,458,000

New Orleans Regional Business Development Loan Corporation
301 Camp Street - Suite 210
New Orleans, LA 70130
Parishes: Assumption, Jefferson, Lafourche, Orleans, Plaquemines, St. Bernard, St. Charles, St. James, St. John the Baptist, St. Tammany, Tangipahoa, Terrebonne & Washington
Certified: January, 11981
Contact: Kevin E. Williams 504-524-6172
SBA 503/504 Loan Approvals: FY 1992= 3 @ $1,956,000
Since Inception total YTD 26 @ $6,789,000

Northeast Louisiana Industries, Inc.
Route 3, Box 182
Monroe, LA 71203
Parishes: Ouachita, Union, Morehouse, Richland, Caldwell, Jackson,
Franklin, Tensas, East Carroll, West Carroll & Madison
Certified: February, 1983
Contact: Gerald E. McDonald 318-345-0878
SBA 503/504 Loan Approvals: FY 1992 = 5 @ $11,631,000
Since Inception total YTD 13 @ $4,237,000

LA 503/504 Loan Approvals: FY 1992 = 22 @ $6,746,000
Since Inception total YTD 98 @ $26,299,000

The CHAIRMAN. Thank you, Mr. Hertzberg.

Mr. Under Secretary, I think I will try and limit myself to just two questions so that Senator Burns has time and so that you can leave on time. Before I get to my two questions I did just want to take note of two of three remarks you made that I really appreciated. I hope to follow up with you on these, but to do so now would fill up way more than 15 minutes.

One is, I did appreciate your focus on rural poverty, which long before I ever came to the Senate was a real important area to me in terms of community organizing and writing. And you mentioned more press attention. It is interesting to me because I think it is true that while rural poverty is more hidden it is no less real. In fact, you have a higher concentration percentage-wise. And I think quite often that is completely lost sight of. Once upon a time it was on the agenda of this Nation, for a while, but I think we ought to keep poverty in mind as we talk about the rural economy in general. The rural economy otherwise can just be too abstract. It is about the lives of people who live in rural America.

The second point you made that I thought was very interesting, and what I would like to explore further with you had to do with this trend of moving away as a country from the lower-skilled jobs and manufacturing to finding our niche in the international economy with high value products produced by high value labor. That has put rural America at a competitive disadvantage. And yet, I do not see that as any inexorable law. It does not necessarily need to be that way.

And I am reminded of all the talented students I meet graduating from the high schools in the smaller communities who are given the advice by the teachers and the principals and, I suppose, their parents, too: "Listen, if you want to do well you have got to get an education." But what that also means is you have got to leave here because, quote, "There is nothing here for you." And, therefore, the very potential of the communities, a lot of the young talent, as they are doing well in school and thinking about their future they never think about what they can come back and contribute to their community. And somehow I think this whole equation needs to be looked at much more carefully.

Two questions, and I am going to tie this in to last week. We heard quite promising testimony from the Director of the Alternative Agriculture Research and Commercialization, (AARC) Program, and he was focusing on new uses of agriculture that could be promoted as a part of a rural economic development strategy. We also heard testimony last week from the Director of the Sustainable Agriculture Research and Education Program, and from some economists and grass-roots experts, all of whom stated that there were exciting economic—I do not just say environmental but economic—possibilities for environmentally sustainable agriculture.

Both panelists who were talking about new use and sustainable agriculture urged the need for credit and technical assistance for small businesses and some of the emerging industries. And I wonder whether or not there is a way that we could—it is not an accident that we invited the two of you to be here—coordinate SBA and USDA efforts in this area. Both of you talked about the whole

notion of collaboration and it strikes me this is a marriage that ought to take place.

I wonder what you would see your role being in this area.

Mr. NASH. Thank you, Mr. Chairman. Dr. Bird and Mr. O'Connell are two people that I have talked with, and they are here today, and I am very, very supportive of the AARC center and their work and I will continue to support the AARC center's work from my office. And the sustainable agriculture area I think offers tremendous opportunity. Those are two ways I think that we can expand and add more value to the products being produced by farmers in rural America. First, I think we have got to try to figure out ways to capitalize on market niches. Second, I think it is going to be through technology as opposed to historical practices.

One example of how we can work together is through this new Development Banking Initiative that I mentioned. There is going to be a fund, and a board, put together that will include the Secretary of Agriculture, the SBA Administrator, the Department of Commerce Secretary, the HUD Secretary, Secretary Bentsen, and four private sector members. On the public side I think what we will be able to do is, in depressed rural areas, of which about 40 percent of the development banks and loan funds will be located, we will have an opportunity on a day-to-day basis to figure out how we can work together to help provide more flexible capital and technical assistance to rural businesses.

This effort is not just about credit availability. There is money out in rural areas in banks. However, bankers who are good business people, are reluctant from an entrepreneurial standpoint. New ideas, new uses, new technology, oftentimes cannot obtain traditional money to deal with the kinds of new opportunities that I think we have to develop. So I see a tremendous amount of potential in this new development program.

And may I respond to the issue, the poverty points you made?

Senator WELLSTONE. Absolutely. By the way, if I could just interrupt you for a moment, in this collaborative effort you did not mention the Secretary of Energy. Do you know whether or not she is—I only mention that because I see also the whole question of renewable energy—biomass, wind, whatnot—to be just very key to rural America and the possibilities of clean technologies and new businesses.

Mr. NASH. The Secretary of Energy is not scheduled to be on the board of the Development Bank Fund. However, I agree with you, there is a tremendous amount of potential there, and it does mean that we will be working very closely with Energy.

On poverty, I think years ago we looked at poverty in urban America and rural America (whether you were talking about Appalachia or the Mississippi Delta) in terms of equity and equality and morality, and these rationales are still important today.

But the point I want to make is that we do not have one individual to lose or waste in rural areas now. Everybody has to be a productive citizen in order for us to compete in the global economy. So it is for economic reasons now in addition to equity and equality as it relates to helping people in poverty, as it relates to the skill level and potential of young people. Twenty-five, 30 years ago, people with a will to work in rural areas could find some kind of job. They

did not receive much pay, but they could find something to do. Today, even with that will, they will not work unless they have the skill and education to work and unless we provide places for them to go to work.

So I think you are right on target with your point.

Senator WELLSTONE. Mr. Under Secretary, could you outline for me—you have mentioned this, but maybe in a little more detail—the rural component of the President's Community Development Banking proposal? Most of this has come out of an urban experience, and we know there are special circumstances in rural America, and I have not been able yet to quite get a fix on this.

Mr. NASH. The two premier models in the country for development banks include the Shore Bank model in the south side of Chicago, which is an urban model, Shore Bank.

Senator WELLSTONE. I do know that model.

Mr. NASH. The other model is the South Shore Bank in Arkansas, which is in a rural area. The Shore Bank has been around about 20 years; the South Shore Bank in Arkadelphia, Arkansas has been around about 5 or 6 years now.

The concept is that there will be a fund created which will be managed by a quasi-federal agency. The fund will make equity investments in depository institutions, either new or existing, that agree to become development banks. I will talk more about development banks later. But in addition to that, community loan funds—credit unions, community development corporations, Microloan funds—will also be eligible for investments from this Community Development Bank Fund.

The difference between a development bank and a commercial bank is this. If you walk into a commercial bank and you say, "I want to rehabilitate 10 houses with the windows knocked out and the walls knocked down. I want to use some people in the community who are unemployed to do the rehabilitation work, and I want to make loans to them to buy the houses." The commercial banker says, "Where is your business plan?" And the person says, "What is a business plan?" And then you walk out.

If you walk into a development bank and you present the same scenario, the banker says, "You need to go down to our technical assistance subsidiary right down the hall, talk to them about putting together a business plan for this. You also need to then talk to our Small Business Investment Corporation which is sponsored by SBA and talk about some venture capital so you can get about 20 percent, because this is not a good deal without venture capital. We also know that the vo-tech school has a training program to train those young folks down in your area to do sheetrock and windows and roofing and all this. And then, after you do that, let us talk about finding ways to take our Microloan program to provide a $5,000 loan to a young person to buy some tools so he can start a small business. Also, you ought to go to Farmers Home because they have a low-interest 502 program, so the people who are actually fixing the houses up can move into them."

That is development banking. That is the kind of response we hope to get from these institutions that will receive this equity investment. That is not the role of a commercial banker; they are not set up to do it. That is the difference.

Senator WELLSTONE. Senator Burns?

Senator BURNS. It all sounds fine, but how are you going to pay back the money?

Mr. NASH. How are we going to pay back the money? It is about $382 million that the banks and loan funds will pay back to the fund.

Senator BURNS. The point I was getting to, Mr. Nash, is that we can loan a lot of money. We can come up with ideas. But now you have to have something to provide the wealth to pay those loans back, and that is where I am coming from.

We have now the third, and the fourth will finally be online here by this fall we hope, in Distance Learning and in sharing of resources in our smaller rural areas. I think Montana is probably on the cutting edge of that because I got interested in telecommunications early on when I came to this Congress.

Because it is my belief that that will be a vital part of the infrastructure, not only from the standpoint of education but also in telemedicine, in rural health. Also, now, we have tied four small towns together, and you could put all four of them almost in this room. They are 100 miles apart. Now they are partnering up on some economic development ideas in those areas on that two-way Interact.

I would like to take you to Montana and show you those models, what we have done with telecommunications and how it works for rural areas. I was just reminded by my very able staff here that sometimes we try to attract the wrong kind of business; it does not fit in a rural area. We do the wrong things. In our exuberance to get something out there we get enthusiastic, but it just does not fit.

So I would like to set an appointment with you and go over what we are doing. You mentioned a whole bunch of outfits that are doing the same thing in Kansas, running through all this red tape. Why can we not have one do it? We do not need all those people running around doing the same thing. And I think that would simplify a lot of things.

I appreciate your comments on telecommunications and REA because REA has the expertise; they have been in a rural area. They have the power and they have the telephones, and that is the cornerstone of that development. I am very happy that you recognize that. And if your office or your agency can work in concert with REA I think we can get some things done and not make very many mistakes, and develop some positive things in rural America. Because that is where my heart is.

Now, do not worry about rural poverty. I was raised poor. My dad's gross income in 1933 was $28.80 on 160 acres of two rocks and one dirt. So do not talk to me about being poor. We did not know it until the Government came out and told us. That is the only difference.

But those people in rural America are usually pretty happy people because they are subsistence people. But we can help them. And we can help them in ways in which they can help themselves.

I am going to run out of here, but I appreciate your message, Mr. Nash, more than anyone probably sitting here, because I have worked in that area. And I congratulate you for that.

Mr. NASH. Thank you. And I will come out and look at the project.

Senator BURNS. We will do it. We will sit down and have some lunch and talk about some things that we can do in rural America. Thank you very much. Thank you, Mr. Chairman.

Senator WELLSTONE. Thank you, Senator Burns.

Mr. Under Secretary, we promised you that we would get you out of here on time. We appreciate your testimony today and we look forward to working with you.

Mr. NASH. Thank you very much. I am going to the House Banking Committee where Secretary Espy and several others are testifying on this Community Development Bank Proposal, and I think it is going to mean good, positive changes for rural America if it passes.

Senator WELLSTONE. We will be in close touch. Thank you very much.

Mr. Hertzberg, I have here a letter that I received sometime in August 1991. This was from then Administrator Pat Saiki announcing the establishment of the Office for Rural Affairs and Economic Development, and then she went on to list six forms of assistance that this office could provide. And the first two were economic development initiatives, and the second was statistics pertinent to rural affairs.

Now, I know that the office has been operating within severe budget constraints so I do not mean this to be an unfair question, but I wonder whether or not you might be able to give me some sense of what the office has been able to accomplish concretely in its 2 years.

Mr. HERTZBERG. I think that Mr. Mandel, who is director of that office, could probably answer that question a little better than I.

Senator WELLSTONE. Fine.

Mr. MANDEL. I welcome the opportunity, Senator, to talk about the activities that we have been doing since the creation of the office. As far as the first two points that you mentioned, economic development initiatives, we outlined a number of those in our statement.

Some specific things that we have done within SBA have been to focus our 502 loan program exclusively on rural areas. Second, we have some incentives for lenders to make loans in rural areas. There is a fee-sharing arrangement with rural loans, where if the loan is in a rural area the lender gets to keep half of the 2 percent loan guarantee fee. We also allow—we have special emphasis in our 504 program on rural areas. Instead of $750,000 the limit can be $1 million. And also, the job creation requirement is waived.

When we started out we sat down and strategized how best can we accomplish our objectives. We realized that we had severe budgetary resources so that a stand-alone organization was out of the question. And we believed that our best approach would be to make impact on niches where we could, to leverage our resources through government-wide efforts, and also play a strong coordinating role within the SBA. So we put a lot of emphasis into participation in the money management group.

We are the ones also that coordinate the involvement of all of the SBA field office people on the state-rural development councils

and we play a very active coordinating role within the SBA. We have sort of a little kitchen cabinet that meets daily in Dan Gibb's office, and that includes people from Business Development and Advocacy, which are the two other offices in addition to Financial Assistance that play the major SBA role in rural development, and they are constantly brainstorming, exchanging information, planning and the like.

As far as statistics are concerned, one of the things we do is to constantly monitor the relative amount of loans that are going into rural areas as opposed to urban areas. And we have measured this going back 10 or 15 years or so, and I believe in every year that we have looked at it the percentage of SBA loans and dollars going into rural areas is higher than the population percentage. So we believe that we make a real penetration in rural areas.

There are a couple of research papers that we submitted for the record. One is in New York State and one is in Idaho, and they both show very high penetration rates of the SBA, particularly the loan programs, in rural areas of those states. Much higher utilization rates, say by businesses in rural Idaho than you would get in many urban areas.

And, of course, the Kansas Project is another big one for us because that addresses, I think, a major issue. It is red tape. It is the fact that you have a whole lot of agencies. Senator Burns said why do you need all those agencies. Well, that may be a good question, but one fact of life is that they are there and we do need to find ways of bringing them all together. So this is an effort to do that, through this demonstration project in Kansas. And it seems to be going well. It has taken an awful lot of work. We hope that once we demonstrate what can be done that we can spread this to additional states. We have had interest from other states already.

Senator WELLSTONE. Can I just move this along with one other quick question for the two of you. But I guess this would be to you, Mr. Mandel. Can I submit to you a request for the numbers that you collect and how you define rural?

Mr. MANDEL. Oh, certainly. Some of those are in our statement and we can give you the historic information as well.

Senator WELLSTONE. How do you measure the outcome of your initiatives as to whether it is successful or not? What is the accountability that is built into this?

Mr. HERTZBERG. I think in some of the efforts that are carried on by this office there is not really an efficient way to measure. In the lending programs——

Senator WELLSTONE. I am sorry, I did not hear you.

Mr. HERTZBERG. I think that in some of the efforts, it is not a quantitative thing and there is not really an efficient way to measure.

But I think in the lending programs—and that is one of the major things that we do—we can measure our success by the success of the businesses and by the currency rate of the loans that are made and that sort of thing.

Mr. Mandel did mention that we have had a good penetration rate in rural areas for many years, and I think part of that is because the banks rely on our program, perhaps it is more important to them. It is the smaller banks, those that may be located in more

rural areas. So that our program is really very well designed to aid them in carrying out the loans to small business.

Mr. MANDEL. Senator, we did have a major evaluation of our large loan program, the 7(a) program, last year. Part of that is mentioned in our statement. But that has been our major effort to answer the question you just raised, which is, you know, you make all these loans. Then what happens?

What we found was that the businesses that come to get SBA loans are businesses that, contrary to being the dregs of life as the picture used to be, say, as David Stockman stated back in the old days, that these businesses are ready to grow. They come to the SBA because they either are businesses that are starting up or that have already existed but need to expand. And we found that these businesses are tremendous generators of jobs, taxes, profits, and sales.

We also were able to do a comparison of the relative growth rates between urban/suburban and rural areas. And as we indicated in the statement, the growth rates in 3 of the 4 areas that we talked about here were actually higher in rural areas than they were either in urban or suburban. I think part of that is that the businesses were smaller to start with, so that makes it easier to achieve a higher growth rate.

But I think the fact that they did so well almost goes against the conventional wisdom of all of the other demographic statistics about rural areas lagging.

Senator WELLSTONE. Speaking to the last question, speaking of the 7(a) program, the administration is now proposing to bring down the guaranteed percentage from 85 percent to 75 percent, and people in the State of Minnesota tell me that that is going to really hurt the rural banks. What is your judgment on that? I do not mean to put you in an uncomfortable position but I would be interested in your reaction.

Mr. HERTZBERG. I think that what happens, on the bottom line, is going to be determined by the Congress, and the Congress, very frankly, has rejected that approach in the past. We do have a very tight budget situation and I believe that Administrator Bowles is going to testify on that before this full Committee tomorrow.

I know that there are some tough choices to be faced, but the budget situation is also a very tough one for us.

Senator WELLSTONE. Well, I think I know your position.

First of all, I would like to thank the two of you for your work. I think that, on the one hand, it is fair for people to argue that we can do better on more efficient delivery of programs and we can streamline and make Government more efficient. On the other hand, it is a very tiring and tiresome argument that everybody that is involved in public service is a bureaucrat doing nothing. And I do not think that applies to you all. And I think there is a lot of exciting public/private partnerships and initiatives that have to take place, and I feel like you are working in an area that the country has just put in parentheses for way too long. I really appreciate what you do.

Thank you for being here.

Mr. HERTZBERG. If I could take just one more second to stress one thing that was included in the statement. That is the great benefits

that I think will come from the Microloan Program. It can be particularly useful in rural areas.

Senator WELLSTONE. And I would like to see much more in rural Minnesota and other rural communities as well. I agree. There have been some stirring successes.

The nice thing about whenever you have got a concrete success, it just sort of provokes hopes and aspirations of other people as they hear about it. It has a ripple effect.

Thank you very much. I appreciate your time.

Mr. HERTZBERG. We have a book that we are going to leave with you. It was prepared as a resource directory. It covers 13 states, I believe. We do not have them all, but one we do have is Minnesota.

Senator WELLSTONE. Well, that is all that matters. No. Thank you very much.

We will move on to our second panel. Aliceann Wohlbruck, who is Executive Director of the National Association of Development Organizations; Jim Deffenbaugh who is Executive Director of the Panhandle Area Council, Hayden, Idaho; and Terry Stone, Executive Director, Region Nine Development Commission, Mankato.

I think we will start out with you, Ms. Wohlbruck. Thank you for being here.

STATEMENT OF ALICEANN WOHLBRUCK, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Ms. WOHLBRUCK. I am Aliceann Wohlbruck, executive director of the National Association of Development Organizations. I want to thank you, Mr. Chairman, and your colleagues on the minority side for inviting NADO to testify today. Your remarks really warm our hearts. People like me who have been here for quite a while fighting for rural economic development join with you and Senator Pressler in that what we are doing here is consciousness-raising about the reality of rural America.

That is what we are doing here, and I thank you again and your staff for putting this together because I think it is a very important effort.

I want to give you a brief overview. On this panel are two of the members of NADO, Jim Deffenbaugh from Idaho and Terry Stone from Minnesota, and they are the real experts on rural small business because they administer very successful small business loan and other community and economic development programs in their regions. Terry is a past president of NADO and Jim serves on our board, so they keep me straight and let me know what is really going on out there.

NADO was founded in 1967 as a public interest group to help professionals and local elected officials share information. We are dedicated to improving the economic opportunities and the quality of life in America's small towns and rural areas. We have an advocate for a regional approach to economic and community development in rural areas and small towns because, as you know, in rural areas, economic conditions and development needs certainly transcend jurisdictional boundaries. So we believe that the strategies and solutions to rural distress are most effective when they are implemented at a sub-state, multi-county level.

Our members are regional development organizations; they have different titles in different parts of the country. There are some known as economic development districts, councils of governments, area development districts, and they work with local elected officials and community and business leaders to develop long-term strategies. They offer technical assistance and provide small business financing.

We did put in our testimony a copy of a report we did to highlight what we do. You can see on this map on page 2 that most of America is rural; rural communities include one in four Americans, and that is the same number who live in our large inner cities. Yet their problems, as you well point out, just do not get the big media attention unless we experience something like a flood. If you add to that the 140 small metropolitan areas, the total goes to about 77 million people, almost a third of the U.S. That is the niche that we are talking about, rural and small metropolitan areas.

Bob Nash certainly highlighted the rural facts for you, and I want to add one other thing to this. As you know, over 60 percent of farm families' income is from non-agricultural sources. And, family farmers, as Jim pointed out, are small business people. So, non-farm economic development programs, such as that in rural development or the SBA or the Economic Development Administration, are really vital to the survival of small farmers and healthy economies. Sustainable and alternative agriculture entrepreneurs are probably the kind of people that are going to be needing the small business loans that we are discussing.

I also included a chart in my written testimony that we have been keeping and updating since 1980 of all the programs that we think are important—or our members tell us are important—for rural small business economic development. So there are a lot of them but they serve different purposes. And that is why we think you need strong regional organizations at the local level to put these programs together.

I would like to get in a little commercial. A couple of the agencies that aren't represented here are the Economic Development Administration and the Appalachian Regional Commission which work in those 13 states. Both EDA and ARC, and more recently, the USDA programs in rural development, and SBA, have been extremely important in providing both institutional capacity at the local level and development dollars that certainly would otherwise not be available.

I also put in my testimony a copy of an Economic Development Digest, and there is a map that shows the coverage. There are about 300 economic development districts around the country that are doing this kind of work primarily in rural areas. Small business often turn to our folks at the local regional level for financing to help leverage the private investment and ease the credit gap in rural America, because most of the studies show that there is much more of a credit gap in rural areas due to the nature of rural banks.

Our regions help rural entrepreneurs and small business obtain otherwise unavailable capital, and Jim and Terry will be telling you about some of the specifics. The majority of these economic de-

velopment districts manage revolving loan funds with funding grants provided by the Economic Development Administration in the Department of Commerce. In addition, the development districts are the delivery mechanism for programs like the Intermediary Relending Program at USDA. The development districts are also the 504 Certified Development Companies that the SBA officials were talking about. In fact, were it not for these EDA districts that already exist they would not have the staff capacity to run a CDC, because lending money is a very complex business and you need qualified professionals.

Of the 162 sub-state rural CDCs, 99 are directly affiliated with a regional development district, and many others are a spin-off of those. Without these programs we think you would not have the capacity to have funding for start-up or expansion of small business. And I did want to mention EDA and ARC as the grounding for a lot of these programs. I realize you do not have jurisdiction, but they really are the only Federal programs that provide a little administrative money to get the professional staff that you need to take advantage of all of these programs.

I also included a copy of our Digest on Rural Development Finance, and we are talking about what are development banks and the development banking proposal. It is a very complex world, as you well know, but we are trying to be a resource—Allan mentioned the rural resource centers. I think regional centers can certainly perform that.

I was asked to give you a overview of some of the programs that are coming up. Generally speaking, the SBA and the Intermediary Relending Program in RDA are the most flexible in terms of their capacity to join together and put together packages. On the other hand, EDA's revolving loan fund program has added a lot of administrative requirements. During the last 12 years, as these programs are scheduled for elimination the number of requirements and administrative restrictions has grown, so we are hopeful with the new initiatives from the administration that some of those things can be simplified.

We do have a couple of concerns. One is the lack of training for the professional people who do this lending. There is no national effort. We do some, but there really has not been any training. Second, there is no administrative funding from the SBA program, the IRP program or the EDA program for setting up these programs. There is such funding under the Microloan program, but you do not really get a base of administrative funding.

They talked about the single application form and we certainly support that. In fact, one of our members was the key player in putting that together. We are very supportive of the national initiative, the efforts that Bob Nash was talking about, and state councils. And we hope that the Clinton administration will continue and improve those efforts.

There are two additional concerns that I would like to talk about. One is regarding the problems we have encountered recently in the exclusion of our kinds of organizations from eligibility for participation. When the new SBA Microloan program was started eligibility was restricted to private non-profit organizations, and this would have excluded our kinds of public/private regional orga-

nizations from participating. Eventually the Congress amended this and now our kinds of organizations with public officials are allowed, and Jim Deffenbaugh can tell you about the success of that program in his region.

Our problem is, if you write these Federal laws so that they are totally structured, then you do not allow any flexibility at the local level for people to design the kind of program that best meets their needs.

We are also concerned about the Development Banking bill at this point because the language says, "Agencies or instrumentalities of the United States or an agency or instrumentality of any state or local political subdivision cannot participate as development banks." This would mean that in most rural areas, our kinds of public/private groups would not be able to participate, as far as we know. We are working very hard with the administration, and hopefully with you, so that you do not unnecessarily restrict eligibility and that you get the coverage out there in rural areas.

I hope that this Subcommittee—and I know of your broad interest—would be sure to look at the existing development finance programs—SBA, EDA, RDA, Health and Human Services—so that as we reinvent government we do not reinvent the wheel by setting up duplicative delivery systems. The banking folks are very urban oriented so we are going to have to work hard on them. We will look for you to help us.

But we hope your Subcommittee would take a look at this as you conduct these hearings and that you have a coordinated program. We think SBA and other agencies have a track record in this and we ought to make better use of the existing system.

I thank you for inviting us, and I will be glad to answer questions.

[The prepared statement of Ms. Wohlbruck follows:]

NADO

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Testimony of

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before the

SUBCOMMITTEE ON

THE RURAL ECONOMY AND FAMILY FARMING

COMMITTEE ON SMALL BUSINESS

of the

U.S. SENATE

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Washington, DC

STATEMENT OF ALICEANN WOHLBRUCK, EXECUTIVE DIRECTOR OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS (NADO), BEFORE THE SUBCOMMITTEE ON THE RURAL ECONOMY AND FAMILY FARMING OF THE SMALL BUSINESS COMMITTEE, U.S. SENATE, JULY 21, 1993.

Mr. Chairman, members of the subcommittee, I am Aliceann Wohlbruck, Executive Director of the National Association of Development Organizations (NADO). I have been the Executive Director of NADO since 1979.

I would like to thank you, Mr. Chairman, for inviting NADO to testify at today's hearing. Our members are grateful for your interest in rural economic development and in helping to solve the problems faced by small businesses in rural areas throughout the country.

I will be giving an overview of rural economic development and the federal government's role in creating jobs and building communities. The other members of this panel -- James Deffenbaugh from Idaho and Terry Stone from Minnesota -- are the real experts on rural small business because they both administer small business and a host of other economic and community development programs in their respective regions. Both of these individuals serve on the NADO Board of Directors. They will give you more specific information on small business lending programs.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations (NADO) is a national public interest group founded in 1967 to help professionals and local elected officials share information and ideas. NADO is dedicated to improving economic opportunities and the quality of life in America's small towns and rural areas.

The association is the leading advocate for a regional approach to economic and community development in America's rural communities and small cities. In rural areas, economic conditions and development needs transcend jurisdictional boundaries. Likewise, strategies and solutions to rural distress are most effective when implemented at the substate, multi-county level.

NADO members are regional development organizations, known variously as economic development districts, councils of governments, area development districts, and regional councils. Regional development organization staff work with local elected officials and community and business leaders to develop long-term strategic economic development plans. In addition, they offer a wide range of technical assistance, and provide small business financing.

Included with this testimony is a report we prepared explaining regional development organizations and their role in rural America. As you can see from the map on page 2, most of the United States' land mass is rural. According to the Census, one in every four Americans, or 62 million people, live in rural areas, equal to the number in inner cities. In

addition there are 15 million people in 140 small metropolitan regions, for a total of 77 million Americans. These people share many of the same problems as big city residents, such as poverty and unemployment, but they face unique obstacles because they are dispersed over hundreds of thousands of square miles, have low population density, small tax bases, scarcity of capital, and a small number of local leaders who are often called on to perform multiple roles.

Contrary to popular belief, rural America is far more than farmland. In rural areas, agriculture, mining and forestry account for less than seven percent of employment. The service industry accounts for 29 percent of rural employment and manufacturing makes up 21 percent. Over 60 percent of farm families' incomes is from non-agricultural sources. Non-farm economic development programs, such as those under the Rural Development Administration, Small Business Administration, and the Economic Development Administration, are vital to small farmers' survival.

Furthermore, rural Americans face a lower rural per capita income ($13,786) than the national average ($17,592); a higher rate of unemployment (8.5 percent) than the national average (7.6 percent); a greater poverty rate (16.8 percent) than the national average (12.4 percent); as well as a higher rate of students dropping out of high school (30.8 percent) than the national average (23.5 percent). In many regions these figures are much worse.

Most of the U.S. is composed of small cites, counties, towns and villages. Of all the local governments in this country, 86 percent serve populations under 10,000, and half have fewer than 1,000 residents.

With federal and state cutbacks moving our intergovernmental partnership into an intergovernmental system of mandates, rural local governments increasingly rely on regional organizations for answers to their development needs. Indeed, regionalization encompasses long-term development planning, local government services, economic development activities, and environmental management. Attached to my testimony is a chart from our April 9, 1993 newsletter listing the federal programs that our members have identified as the most important for rural economic development. Our chart compares 1980 funding with 1993 appropriations and the President's requests for 1994.

NADO members view economic development broadly, including small business development and traditional infrastructure construction, but also in non-traditional areas such as telecommunications, health care, job training, day care and education. Providing technical assistance to local governments and the private sector, regional development organizations respond to the needs that are identified at the local level, by local people.

Through the years, the Economic Development Administration's modest investment in regional development organizations in rural America, as well as the Appalachian Regional Commission's work in its 13-state region, have been enormously important in building capacity and stimulating growth in local economies. EDA and ARC and more recently the rural development programs of the U.S. Department of Agriculture and SBA have provided the institutional capacity and development dollars that would otherwise be unavailable in most rural communities.

Regional Development Organizations' Role in Rural America

Rural local governments depend on regional development organizations for professional assistance. In most rural communities, rural elected officials serve on a part-time basis and have little or no staff. These organizations augment and support the efforts of local elected officials. Most multi-jurisdictional organizations are also multi-functional, providing a variety of services from job training programs to solid waste disposal planning to providing capital for economic development lending-- according to each region's needs. (Page 4 of our report highlights some of the services provided by regional organizations.)

Also included with my testimony is the June 1993 issue of the *Economic Development Digest*, a monthly publication of the NADO Research Foundation published in cooperation with the Economic Development Administration and the U.S. Forest Service. This issue focuses on substate regionalism (page 1) and EDA economic development districts (map in centerfold). The Economic Development Administration in the Department of Commerce funds approximately 300 regional organizations, primarily in small metropolitan and rural areas.

For more than 25 years, economic development districts have exemplified the public-private approach to economic development. These regions provide the institutional infrastructure in rural America to organize and administer federal, state and local programs for small business lending. Small businesses often turn to regional financing programs to help leverage private investment and ease the credit gap found in rural America. Most regions help rural entrepreneurs and small businesses secure otherwise unavailable capital. A majority of economic development districts manage EDA revolving loan funds and are the delivery mechanism for such programs as the Rural Development Administration's Intermediary Relending Program and other development finance programs.

Many development districts serve as Small Business Administration (SBA) 504 Certified Development Companies (CDCs). In fact, were it not for the EDA district program, rural areas would not have the staff capacity to run CDCs. Of the 162 substate rural CDCs, 99 are affiliated with a regional development district. Without these programs, many small businesspeople and entrepreneurs in rural areas would be denied access to funding for start-up or expansion of small businesses.

A 1990 study by the Kansas Center for Community Economic Development (KCCED) determined that the development district program makes a major impact in small cities and rural areas, and that the program should be expanded. Currently, EDA has designated a number of regional organizations as development districts, yet limited resources prevent the agency from funding these districts. I understand that EDA has a list of over 30 additional regions that it would like to designate and fund if adequate funding became available. NADO members are eager to expand the development district planning program. Funding for planning and local technical assistance is the key to tapping the development potential in our nation's smaller communities and rural regions.

Testifying on May 19 before the House Public Works Economic Development Subcommittee, EDA's Denver regional office Director Steven Brennen noted, "Economic

development districts provide the backbone of both the EDA's programs and overall successful economic development. In highly rural areas the multi-county districts are essential in bringing needed economic development expertise to bear. There just is not the critical mass of resources in these sparsely populated areas to support the staff and attention needed for good economic development," according to Brennen.

While I realize that the Small Business Committee does not have jurisdiction over EDA and ARC, I want to highlight these agencies' contribution to small business and rural development. These are the only federal programs that provide small grants for support of professional development staff in rural areas.

I have also included a copy of the April 1993 *Economic Development Digest*, a special rural development finance issue, that highlights the current federal programs providing small business funding and the Clinton administration's proposals.

Policy Priorities for the Future

There are numerous federal programs focusing on small business development and there are proposals for new initiatives such as community development banks and "reinventing government." NADO is supportive of the existing federal programs and our members are eager to be a part of new initiatives to create jobs in rural areas. However, we do have some concerns about the administration's proposals and some suggestions for improving existing programs.

Concerning the existing small business lending programs in SBA, RDA, EDA, ARC, and Health and Human Services NADO supports increasing the funding levels and, almost as important as additional dollars, removing impediments to coordinating existing federal lending programs. During the past 12 years when most of these programs were scheduled for elimination by the Reagan and Bush administrations, the array of federal regulations and restrictions has increased enormously despite talk of "Total Quality Management."

Generally, SBA and the Intermediary Relending Program (IRP) in RDA are the most flexible. These agencies have been willing to work with CDCs and revolving loan funds to allow these programs to work together. On the other hand, EDA's revolving loan fund (RLF) grant program under Title IX has added various administrative requirements during the past 12 years which have made that program less effective in meeting local needs. The major issue that concerns our members is that the EDA revolving loan funds are forever considered federal dollars, unlike IRP dollars which become local once they have been loaned. As long as there is public accountability for the management of these public funds, we believe that local and regional agencies should have flexibility to meet locally determined needs.

Among the concerns identified by NADO members is the lack of training for those administering development finance programs at the federal and local level. In addition, the SBA 504, RDA IRP, and EDA programs do not provide any administrative funds to support the creation and management of these programs at the local level.

Another problem is the multiplicity of application forms for various small business loan programs. We believe that a single application form should be used for all small business finance programs. In fact, one of NADO's members in Kansas, Jack Alumbaugh, has worked with the Kansas State Rural Development Council to design and test a single loan application for all federal, state and local small business finance programs. We think a single form should be adopted by all federal small business finance agencies.

Prior to 1980 the management division of the Office and Management and Budget (OMB) was the key agency in standardizing and coordinating requirements for federal programs. We hope that the National Performance Review (a.k.a. reinventing government) initiative will look at the inconsistencies and impediments to coordinating various small business finance programs. We believe the Kansas standardized application form can be a model and recommend that this subcommittee urge the President and the "M" in OMB to once again serve as a mechanism for simplification and standardization among federal programs. One OMB circular can standardize procedures and requirements across all programs.

NADO members are supportive of the National Initiative on Rural Development and the formation of State Rural Development Councils (SRDCs). We hope that the Clinton administration will find ways to continue and improve the councils' operations and programs, particularly in serving as a vehicle for standardizing and simplifying federal programs and helping rural local officials to solve problems.

Another problem our members have encountered during the recent past is the exclusion of public-private regional development organizations from eligibility for participation in certain federal development finance programs. For example, in 1992 a new SBA microenterprise program restricted eligibility to "private" nonprofit organizations. This excluded regional development organizations from participating. In most rural areas, regional development organizations are the only organizations with the institutional capacity to deliver small business finance programs. Originally, SBA had ruled out regional development organizations simply because local elected officials serve on their governing boards. The congress subsequently amended the legislation to permit organizations with public officials on their board to apply.

This is an example of federal inflexibility restricting the capacity of rural citizens to determine the type of organization which best meets their locally-determined needs. Because this country has not one but 50 different intergovernmental systems, it is important that federal programs not mandate a single type of local delivery mechanism. This is another example of where an OMB circular could help standardize and clarify eligibility.

We have seen a copy of a draft proposal of President Clinton's Community Development Banking and Financial Institutions Act of 1993. From our reading of the proposed legislation, we have a number of concerns and points that need clarification.

For example, the definition of community development financial institution is too restrictive. Barring any "agency or instrumentality of the United States or an agency or instrumentality of any state or political subdivision thereof" prevents regional development

organizations from participating in this program. Barring regions from participation may exclude many rural areas. Organizations with proven development finance track records should not be excluded from eligibility because of their public-private nature.

We are concerned that the draft bill does not take into account the long, successful record regional development organizations have in managing community and small business financing programs. NADO is asking the administration and congress to carefully examine the existing development finance programs including those in SBA, RDA, EDA and other agencies so that we don't reinvent the wheel by creating duplicative delivery systems. We hope this subcommittee will support a coordinated approach to local economic development finance, particularly in rural areas where resources and capacity are limited.

All development is local. Local governments are the permanent institutions which must be included in all federal development efforts if long term change is to occur in rural communities.

Thank you for this opportunity to highlight rural small business finance needs and the role of the regional development organization in helping to meet them. I will be happy to answer questions.

NADO RURAL DEVELOPMENT AND RELATED DOMESTIC BUDGET ANALYSIS
PROPOSED 1994 BUDGET

(Millions of Dollars)	1980	Estimated 1993	Proposed 1994	Change 1993-1994	% Change 1993-1994
DEPARTMENT OF AGRICULTURE					
Rural Development Admin. (FmHA)					
Water and Waste Disposal Grants	290.0	416.0	541.0	125	30.0%
Water and Waste Disposal Loans	700.0	635.5	646.0	10.5	1.7%
Water and Waste Disposal Loans*	–	35.0	36.0	1	2.9%
Community Facility Loans	240.0	94.0	389.0	295	313.8%
Community Facility Loans*	–	100.0	75.0	-25	-25.0%
Business and Industry Loans*	1,073.8	405.0	300.0	-105	-25.9%
Intermediary Relending Loans	20.0	47.0	175.0	128	272.3%
Rural Development Grants	10.0	21.0	51.0	0.5	2.4%
Solid Waste Management Grants	—	3.0	3.1	0.1	3.3%
Fire Protection Grants	3.5	3.5	3.6	0.1	2.9%
Resource Cons. & Development Loans	1.8	1.0	1.0	0	0.0%
Emergency Community Water Assistance Grants	—	25.4	10.3	-15.1	-59.4%
Forest Service Economic Development	0.0	12.7	12.6	-0.1	-0.8%
Rural Electrification Administration					
Rural Development Grants	0.0	14.0	5.4	-8.6	—
Rural Development Loans	0.0	12.4	13.0	0.6	4.8%
Distance Learning Medical Links Grants	0	10	5.1	-4.9	-49%
SCS - RC & D Projects	32.0	32.5	32.1	-0.4	-1.2%
APPALACHIAN REGIONAL COMMISSION					
Total Non-Highway Programs	126.6	50.3	85.6	35.3	70.2%
Research, T.A., Other	2.6	3.9	5.3	1.4	35.9%
Local Development Districts	5.7	3.2	4.4	1.2	37.5%
ARC Highway Systems	228.7	135.6	100.0	-35.6	-26.3%
DEPARTMENT OF COMMERCE					
EDA - Total Program Funds	531.5	217.0	223.2	6.2	2.9%
Planning Grants	33.6	24.8	24.8	0	0.0%
Public Works	260.7	147.4	135.4	-12	-8.1%
Economic Adjustment Grants	85.9	172.1	19.8	-152.4	-88.6%
Technical Assistance	30.7	9.0	10.4	1.4	15.6%
Research and Evaluation	4.2	0.0	0.5	0.5	—
Trade Adjustment Assistance	—	13.7	0.0	-13.7	-100.0%
Salaries and Expenses	40.8	32.1	30.2	-1.9	-5.9%
ENVIRONMENTAL PROTECTION AGENCY					
State Revolving Funds (wastewater)	4,900.0	2,335.0	1,198.0	-1137	-48.7%
State Revolving Funds (drinking water)	-		599.0	599	—
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Community Service Block Grant	550.5	441.0	441.0	0	0.0%
National Health Service Corp.	153.6	118.7	138.7	20	16.8%

NADO RURAL DEVELOPMENT AND RELATED DOMESTIC BUDGET ANALYSIS
PROPOSED 1994 BUDGET

(Millions of Dollars)	1980	Estimated 1993	Proposed 1994	Change 1993-1994	% Change 1993-1994
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Comm. Dev. Blk. Grant-CDBG (30% rural)	3,862.0	4,000.0	4,133.7	133.7	3.3%
Section 108 Loans*	157.0	2,000.0	2,054.0	54	2.7%
Home Blk. Grant (40% State Allocation)	—	1,000.0	1,088.8	88.8	8.9%
HOPE	—	361.0	109.2	-251.8	-69.8%
DEPARTMENT OF INTERIOR					
State Outdoor Rec. (LWCF) Grants	318.6	24.8	24.8	-0.05	-0.2%
State Historic Preservation Grants	43.8	29.0	31.0	2	6.9%
Payment in Lieu of Taxes (BLM)	108.0	105.0	104.0	-1	-1.0%
DEPARTMENT OF LABOR					
JTPA Adult/Youth Programs	3,342.0	1,741.7	1,716.7	-25	-1.4%
Summer Youth	2,330.5	670.7	670.7	0	0.0%
Dislocated Worker	1,664.4	566.6	1,900.0	1333.4	235.3%
Comm. Service Empl. for Older Amer.	266.9	390.1	421.0	30.9	7.9%
SMALL BUSINESS ADMINISTRATION					
503/504 Cert. Development Co. Loans*	250.0	700.0	761.2	61.2	8.7%
Sec. 502 Dev. Company Loans*	44.7	39.6	146.5	106.9	269.9%
General Business Loans (7A)*	3,000.0	3,618.0	6,589.0	2971	82.1%
Small Bus. Investment Co. Loans*	148.8	163.2	167.7	4.5	2.8%
Minority Ent. SBIC Loan*	32.5	17.4	17.9	0.5	2.9
SBDC Program	3.9	67.0	67.0	0	0.0%
Micro-enterprise Loan Program	—	31.4	33.7	2.3	7.3%
Micro-enterprise Technical Assistance	—	6.0	6.0	0	0.0%
TENNESSEE VALLEY AUTHORITY					
Economic and Community Resources	12.4	20.1	20.3	0.2	1.0%
DEPARTMENT OF TRANSPORTATION					
Surface Transportation Program		3,317.4	3,415.6	98.2	3.0%
Sec. 18 Federal Transit Grants (100% rural)	57.1	106.0	131.0	25	23.6%
Local Rail Freight Assistance	82.6	8.0	0.0	-8	-100.0%
Essential Air Service	95.8	38.6	38.6	0	0.0%
NOTES:					
* loan guarantee authority					
The amounts listed in this chart do not include the 1993 appropriations requested in the President's stimulus package.					

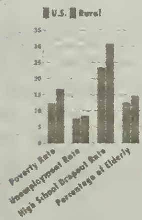
This special report was prepared by NADO legislative Analyst Scott D. Whipple and Research Assistant F. Oscar Hines


How are
regional
development
organizations
helping 62 million
rural Americans
build communities
and create
jobs?

What is rural America?

Rural areas are indicated in red

Rural areas exceed the national average in the following categories:



In addition, rural per capita income is far lower ($13,786) than the national average ($17,592).

One in every four Americans, or 62 million people, live in rural areas, a number equal to those who live in major cities. An additional 15 million people live in small cities and towns. These 77 million Americans have many of the same problems as big city residents, such as poverty and high unemployment, but face unique obstacles because they are dispersed over hundreds of thousands of square miles.

Contrary to popular belief, rural America is far more than farmland. In rural areas, agriculture accounts for less than seven percent of employment. The service industry accounts for 29 percent of rural employment and manufacturing makes up 21 percent.

Most of America is composed of small cities, counties, towns, townships, villages and boroughs. Of all the local governments in the U.S., 80 percent serve populations under 10,000, and half have fewer than 1,000 residents.

WHY IS A HEALTHY RURAL ECONOMY IMPORTANT?

In order for America to have a strong national economy, rural areas must thrive and grow. But rural areas frequently suffer from social, geographic and economic isolation and have limited investment and institutional capacity.

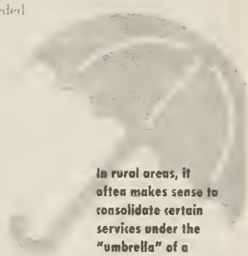
In an age of rapid social and economic change, America's future is intricately tied to the prosperity of both urban and rural sectors. Rural families want to contribute to the growth and development of a healthy economy and to play a significant role in creating economic security for all Americans.

What are regional development organizations?

Regional development organizations are multi-county planning and development districts that encourage cooperation between citizens, local government officials, and the private sector. Initially created in the 1960's, they have grown in number to over 300 and are located throughout the U.S. These regional organizations are best equipped to help rural areas because they provide a critical mass of expertise needed at the local level.

Regional development organizations are known by many names, including:

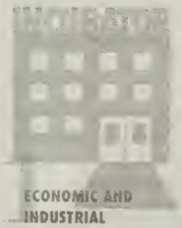
Area Development District (ADD)
Business Development Corporation
Council of Governments (COG)
Development Council
Economic Development Commission
Economic Development District (EDD)
Local Development District (LDD)
Planning District Commission (PDC)
Planning and Development District (PDD)
Regional Development Center (RDC)
Regional Planning Commission (RPC)



In rural areas, it often makes sense to consolidate certain services under the "umbrella" of a regional development organization. For example, operating a landfill in compliance with federal regulations is both expensive and difficult. By pooling resources and expertise, several counties can join together to operate one regional landfill, avoiding duplication of services, saving tax dollars, and ensuring a safe environment. Without a regional approach, this type of solution would be impossible.

Regional development organizations are the catalysts for strategic planning in rural communities. They help identify local needs and priorities. In addition to planning, regions sponsor many programs, including services for the poor and elderly, job training, small business finance and minority enterprise programs. Each region is governed by a policy board that includes elected officials, business leaders and citizen representatives.

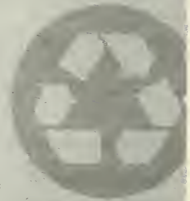
Because they are flexible, regions are often more creative in seeking innovative solutions to local problems. They frequently function as "laboratories for new ways of governing."



What services do regional development organizations provide?

1 ECONOMIC AND INDUSTRIAL DEVELOPMENT

Business incubators help small businesses by providing support services such as clerical, word processing and financial management. The Economic Development Council of Northeastern Pennsylvania helped raise $1.4 million to acquire and convert an old building in Wilkes-Barre into a business incubator. The 19 tenants now employ 115 workers.



2 SMALL BUSINESS FINANCING

Small businesses in eastern North Carolina often had trouble obtaining loans under $20,000 until the Mid-East Commission began its Micro-Enterprise Program. Since 1989 the Commission's revolving loan fund has made 38 micro-loans totaling over $500,000, creating or saving 130 jobs in the region.

3 LAND USE AND TRANSPORTATION PLANNING

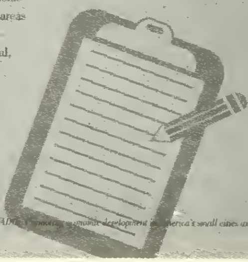
Cities and counties in rural areas often cannot afford the staff to do comprehensive land use, zoning and transportation planning. The Middle Georgia Regional Development Center in Macon has developed an overall plan for their seven-county area, which includes dozens of small towns. This plan helps local governments to determine which areas are appropriate for residential, industrial, or agricultural use.

4 TECHNICAL ASSISTANCE TO LOCAL GOVERNMENTS

Because stray animals were a major problem for citizens and wildlife, the Kentucky River Area Development District (ADD) in Hazard organized a five-county Regional Animal Shelter on donated land. The facility, which is staffed by volunteers from the local Humane Society, is helping to improve the quality of life in southeastern Kentucky by removing unwanted animals from the countryside.

5 SOLID WASTE MANAGEMENT

Because all the landfills in the region were near capacity, Three Rivers Planning and Development District in Pontotoc, Mississippi began working with officials from several counties to organize a regional authority. Three Rivers worked with engineers to determine the best site, purchased the land, and is the administrative agency for the Regional Solid Waste Authority.



N[illegible]RAL RESOURCE CONSERVATION

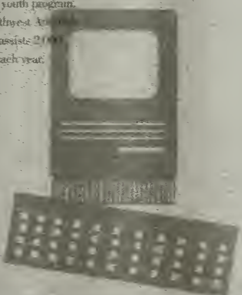
Residents learned about groundwater issues through a creative program called GEM-WEST. With a grant from the Kellogg Foundation, the West Michigan Shoreline Regional Development Commission conducted workshops for teachers, business executives, local officials and the public to build awareness of the need for groundwater protection and environmental education.

7 RECREATION, TOURISM AND HISTORIC PRESERVATION

Wildlife Safari, a world-class 600 acre drive-through game park in Oregon, needed loans to operate and expand. The CCD Business Development Corporation of Roseburg not only helped the park with [illegible] from their revolv[illegible] fund, but also secured foundation funding and Oregon state grants. Wildlife Safari is the largest tourist attraction in this distressed rural region which has lost many jobs because of the spotted owl controversy.

8 JOB TRAINING

Members of families with incomes below the poverty level receive job training and employment assistance from the Southwest Arkansas Planning and Development District in Magnolia. A variety of aid is available, including helping high school dropouts get their diplomas; coordinating technical, computer, and on-the-job training; and a summer youth program. The Southwest A[illegible] District assists 2,[illegible] people each year.



9 SERVICES FOR THE POOR AND ELDERLY

The Region Nine Development Commission in Mankato, Minnesota established "South Central Plus" with 15 other nonprofit organizations to coordinate service programs. South Central operates several projects including a regional Child Care Resource and Referral service, and programs on cultural sensitivity. Region Nine Development Commission is also the local Area Agency on Aging and provides nutrition, transportation, and other services for senior citizens.

10 EMERGENCY SERVICES

The Texas legislature recently chose the regional councils of governments (COGs) to coordinate the 911 network within the state. Accurate detailed maps with street addresses are essential for 911 operators to quickly identify the exact location of a medical emergency, fire or rescue situation. COGS provide up-to-date maps on a regular basis and help coordinate local 911 efforts.

Why is a regional approach the most effective solution to rural problems?

Regional organizations provide economies of scale and are the most efficient way to deliver services, particularly in areas with low population density and limited resources. Regional staff have the technical expertise to assess the region's overall resources and to help implement short and long term strategies.

In addition to coordinating government services, regional development organizations cooperate with the private sector and with community-based nongovernmental organizations such as volunteer agencies, senior citizen groups, and civic associations. They identify community needs, and work with others to find a grassroots solution.

Regional organizations also provide the link between federal and state programs and the local level where development actually occurs. Funding sources vary by region and reflect local priorities. Most regional organizations receive federal, state and local funds to carry out their mission.

Strategic planning, infrastructure improvement and small business assistance are the three essential tools regions need for rural revitalization. The federal agencies that provide these types of assistance for rural communities include:

DEPARTMENT OF AGRICULTURE
Rural Development Administration - water, sewer, business and industry loans
Forest Service - assistance to forest dependent areas

DEPARTMENT OF COMMERCE
Economic Development Administration - grants for planning, public works and revolving loan funds

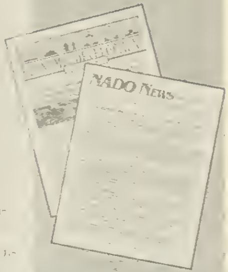
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Community Development Block Grant Small Cities Program

APPALACHIAN REGIONAL COMMISSION - regional development programs

SMALL BUSINESS ADMINISTRATION - small business loans, guarantees

In addition to the above programs, there are numerous other federal agencies that provide funding and technical assistance to regional organizations and rural governments, including the Departments of Labor, Transportation and Health and Human Services.

How does NADO help regional organizations strengthen rural America?



The National Association of Development Organizations (NADO) is a public interest group founded in 1967 to help professionals and local elected officials share information and ideas. The association is the leading advocate for a regional approach to economic and community development. NADO's goal is to assure that all rural citizens have the same access to employment opportunities as those who live in urban areas and a comparable quality of life.

NADO provides information and technical assistance through publications, training and policy analysis. *NADO News*, a weekly newsletter, reports on federal policy, analyzes research, and highlights successful regional programs. The association sponsors a spring conference in Washington and an annual meeting in the fall.

Each year NADO recognizes creative regional projects through the Innovation Awards program. Award-winning projects are summarized in a publication, providing development practitioners with information about innovative approaches to rural problems. At the annual conference, award winners discuss their projects at roundtables.

The NADO Research Foundation was established in 1988 to provide research, education and training. The foundation produces the *Economic Development Digest*, a monthly publication for development professionals and local officials.

The Research Foundation also conducts Revolving Loan Fund Management Seminars, maintains a database of innovative development programs and has sponsored an exchange between development professionals in the U.S. and the eastern German state of Brandenburg.

NADO's goals for the future are:

- building professional expertise in rural areas
- broadening the vision of rural officials and citizens
- working with new partners such as nongovernmental organizations, educational and financial institutions
- improving policymakers' understanding of rural needs
- promoting environmentally sound economic diversification

Rural America is in transition, from a land and resource-based economy to one engaged in trade and services with urban residents and the world. The National Association of Development Organizations' mission is to provide the information necessary for rural Americans to take control of their own destiny.

For information about the regional development organization in your area contact:

NADO

Promoting economic development in America's small cities and rural areas

WOHLBRUCK

ECONOMIC DEVELOPMENT DIGEST

Vol. 2, No. 6 — A monthly report for the economic development community — June 1993

Substate Regionalism In the US: Diversification and Responsiveness

Economic Development District (EDD)
Regional Planning Commission (RPC)
Planning and Development District (PDD)
Council of Governments (COG)
Economic Development Commission (EDC)
Area Development District (ADD)
Business Development Corporation (BDC)
Local Development District (LDD)

According to "An Etiquette for the 1990s Regional Council" by Patricia S. Atkins and Laura Wilson-Gentry, substate regional organizations look and act differently than they did in past decades. Known by a variety of names (see above examples), regional councils are substate, multicounty planning and development organizations that provide an array of services. The authors identify over 500 of these regional organizations in the US.

Most regional councils were created between 1965 and 1975. At that time, regional councils served primarily as comprehensive planning agencies. These multicounty agencies worked closely with the federal government, which emphasized regional approaches and provided funding through a large number of federal programs. As the federal government reduced the number of comprehensive federal planning programs directly supportive of substate regionalism, regional council activities shifted from federally mandated planning to membership assistance and services delivery. The new regional council became market sensitive by staying attuned to customer preferences and became consumer driven rather than provider driven.

In addition to comprehensive planning, regions now sponsor many programs, including services for the poor and elderly, job training, small business finance, and minority enterprise programs. Regional councils have also developed closer relationships with the states during the 80s.

The 60s & 70s

In the formative decades for regional councils, prudence dictated a low profile for the

"Regional" continued on page 7

What is the Best Way to Evaluate a Program?

Government programs have historically been measured by how program mangers conform to specific standards or whether or not they have followed the correct procedures. Many public administrators feel that this system of "compliance accountability" pays little attention to whether the actual goals of the program are being met.

In academic circles the debate is referred to as "compliance accountability versus performance accountability." Some public managers believe the government should not ask 'did you follow the procedure' but rather 'did you accomplish the program's goals.'

Performance accountability is capturing the imagination of many in government as the best way to measure if a program is

"Evaluate" continued on page 7

In This Issue...

A publication of the National Association of Development Organizations (NADO) Research Foundation

ViewPoint

Aliceann Wohlbruck
Executive Director
NADO Research Foundation

This month's *Digest* has two articles on substate regionalism. The regionalism article on page one describes the changes that have occurred during the last 30 years, and shows that regional councils have adapted to changing circumstances.

The Economic Development District (EDD) article below describes how these regional organizations serve a particularly important role. Of the approximately 500 regions that exist today, more than 300 are Economic Development Districts. The map on pages 4 and 5 shows the boundaries of the existing EDDs.

Regional coordination and regional service delivery are not new ideas. Most of the federal programs that promote regionalism were created in the 60s. However, today more than ever regionalism is not a luxury, but a necessity.

Local governments simply do not have the resources or capacity to provide many essential services by themselves. When local governments participate in a regional program, they are creating the institutional capacity to solve their area's problems in a more efficient way.

Although founded in the 60s, regional development organizations are ideally suited to meet the challenges of the 90s. Many of these organizations have expanded their scope to meet the needs of the communities they serve. With continued communication and educational efforts, regions will help local governments meet new challenges.

Editor's Note

The May 1993 *Digest* contained an artist's rendering of a map of nonmetropolitan America on page two. A number of readers, including the Albemarle Commission's Clarke Martin in Eastern North Carolina, wrote to tell us that their area had been incorrectly identified as metropolitan on the map.

The map was titled "What is Rural America?" but showed nonmetropolitan counties. Although most people use the words "nonmetropolitan" and "rural" interchangeably, they have very distinct meanings. Nonmetropolitan is a definition from the Office of Management and Budget (OMB) and was used to create the map. Rural is a definition used by the Census Bureau and is much more inclusive than nonmetropolitan.

For example, while OMB states that about 80 percent of the US land mass is "nonmetropolitan," the Census figures show almost 98 percent of the US area as "rural." ***We apologize for the confusion.***

Economic Development Districts... See This Month's Centerfold Map

Economic Development Districts (EDDs) are multi-county, planning and development organizations that encourage cooperation between citizens, local government officials, and the private sector. Originally created in the 1960s by the Economic Development Administration, they have grown in number to over 300 and are located throughout the US (see the map on pages 4 and 5).

Local governments, particularly in rural and small metropolitan regions, depend on Economic Development Districts for professional assistance. In many communities, local elected officials serve on a part-time basis and have little or no staff. For example, the Mid-East Commission, an Economic Development District in North Carolina, serves a rural five county region. Of the 40 municipalities, 27 do not have managers or administrators, and only 16 have a part-time town clerk. Like most EDDs, the Mid-East Commission is multi-functional, providing a variety of services from job training programs to solid waste disposal planning, and small business finance.

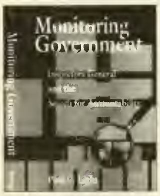
The December 1992 Economic Development District Quality Action Team Report identified the mission of EDDs as follows: "The mission of an Economic Development District is to identify and address economic problems and opportunities through an overall economic development program, which is prepared and coordinated locally by a locally controlled multicounty organization, and uses EDA programs and all available resources."

To qualify as an EDD, a region must first be designated. On the EDD map, designated Districts are shown in gray, and funded Districts are shown in green. ***For additional information on the EDD program contact Luis F. Bueso at (202) 482-3027.***

Development "Digestibles"

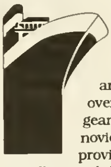
Have Inspectors General Been Successful?

Have Inspectors General (IG) been effective agents in the fight against government waste, fraud, and abuse? In a new book published by The Brookings Institution, *Monitoring Government: Inspectors General and the Search for Accountability*, author Paul Light argues that IGs have been largely unsuccessful. IG's were given the freedom to monitor according to three very different philosophies: compliance accountability, performance accountability, and capacity-based accountability. As Light demonstrates, IGs became increasingly oriented toward compliance accountability. Compliance accountability relies on detailed rules and regulations to promote conformity. The author attributes the shift to the fact that politicians, in both the legislative and executive branches, naturally find compliance monitoring more attractive. Compliance monitoring produces clear-cut results that may easily be used to preserve a program's political viability. Light argues that IGs ultimately must fail if they continue to ignore long-term strategies for short-term solutions. He concludes that "the IGs have not done their job poorly, but they may be doing the wrong job - - putting too much emphasis on compliance and not enough on performance and capacity building." ***For more information call The Brookings Institution at (202) 797-6000; copies are $12.95.***



SBA Export Video Available

The US Small Business Administration and the Bank of Boston have announced the creation of a new educational videotape designed to "help take the fear out of exporting" for new exporters. The 35 minute "Basics of Exporting" video explains the nuts and bolts of selling overseas and is geared toward the novice. The video provides information on selling and distributing, getting goods overseas, payment mechanisms, and sources of financing and marketing resources. ***The "Basics of Exporting" video is being distributed nationwide by the SBA and can be purchased by calling (800) 827-5722. The cost is $30.00.***

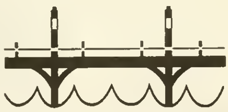


Online Service for Rural Areas

HandsNet, an 'online' computer service for organizations promoting economic and social change, provides users with notices on federal and state public policy and legislation. HandsNet also summarizes human service issues from national newspapers and wire services, and offers forums on various development and social change issues. The forums put users in touch with other organizations working to promote development in rural America. Topics discussed include microenterprise and small business development, employment and job training, and strategic planning. Environmental topics, including solid waste and wastewater disposal, are also covered. In addition, HandsNet provides electronic data transfer, e-mail and FAXing services. The communications software costs $100 and a one year's subscription is $270. ***For more information, call (408) 257-4500.***

Timber Bridges Are A Viable Alternative With SLAM

The US Forest Service, in conjunction with New Mexico State University, and local resource conservation and development districts (RC&Ds) has developed a new computer program, SLAM, to help in the design of timber bridges. SLAM, or Stress Laminated Wood Deck Design program, is available for $60.00 and is being previewed at a conference in Las Cruces, NM. The Timber Bridge and Wood Structure Conference will be held June 8-10. ***For more information call Jornada RC&D at (505) 526-1424.***



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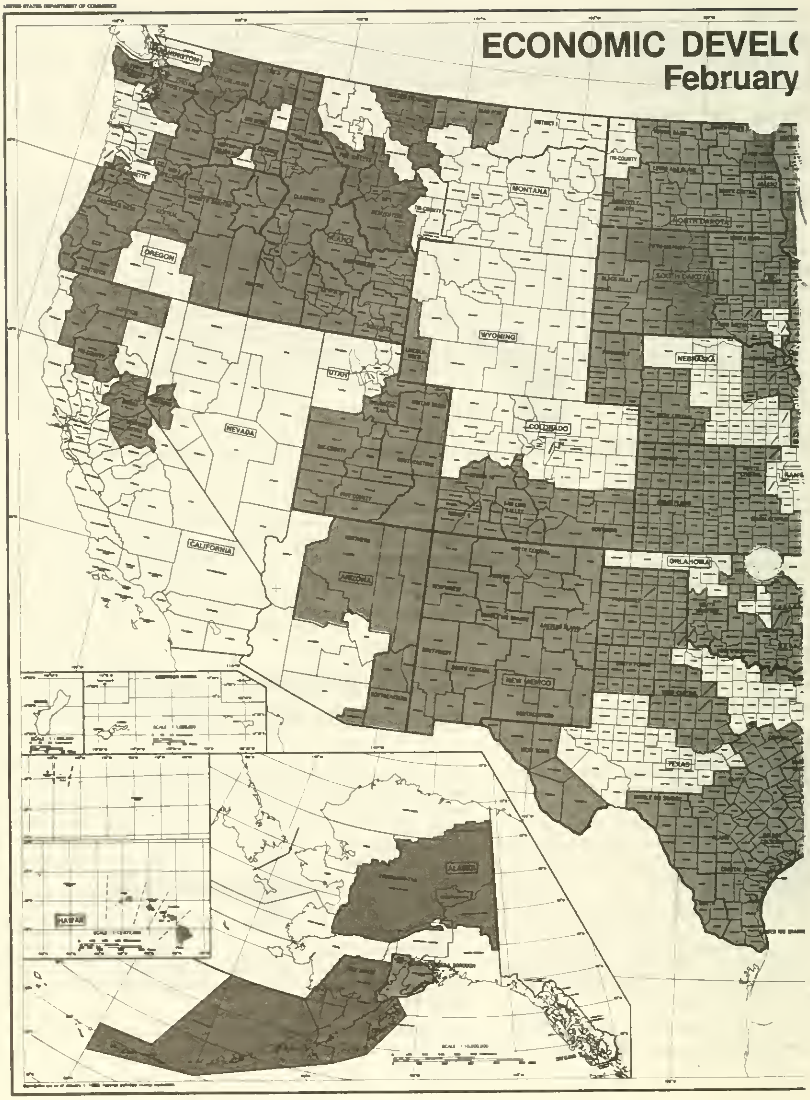
ECONOMIC DEVEL(
February
WASHINGTON
OREGON
CALIFORNIA
NEVADA
IDAHO
MONTANA
WYOMING
UTAH
COLORADO
ARIZONA
NEW MEXICO
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
OKLAHOMA
TEXAS
ALASKA
HAWAII


OPMENT DISTRICTS
15, 1993
MINNESOTA
IOWA
ILLINOIS
MISSOURI
VERMONT
NEW YORK
NEW HAMPSHIRE
MASSACHUSETTS
RHODE ISLAND
CONNECTICUT
NEW JERSEY
DELAWARE
DISTRICT OF COLUMBIA
NORTH CAROLINA
SOUTH CAROLINA
FUNDED DISTRICTS
DISTRICTS DESIGNATED
BUT NOT FUNDED
U.S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION

Economic Empowerment Act

The President's Enterprise Zone Proposal

The Clinton Administration has released preliminary information on the Economic Empowerment Act of 1993. President Clinton discussed his plan during a May 4 conference call to a number of community leaders. The act would create 10 empowerment zones, six urban, three rural and one Indian reservation; and 100 enterprise communities, 65 urban, 30 rural, and five Indian reservations, in economically distressed areas. The Economic Empowerment Act incorporates "traditional" enterprise zone tax incentives as its foundation. It builds on this foundation by including provisions recognizing "human and community needs" such as education and job training, day care, housing, and community policing.

Challenge Grant Process

Empowerment zones and enterprise communities will be designated through a competitive, "challenge grant" process. To apply, eligible communities will be required to submit a comprehensive strategic plan demonstrating how the community, private sector, and local government will work together to deliver and use government services in "innovative" ways. President Clinton's overview of the plan released at the May 7 briefing states, "This proposal offers local communities the incentives, targeted investments, deregulation and flexibility they need to work with the private sector to develop comprehensive economic strategies to generate business, create jobs, make their streets safe, build community, and empower people."

Increased Flexibility

Applications will be made to an Enterprise Board, made up of the various Cabinet level Secretaries, and up to 11 individuals designated by the President. The Board will serve as "a single point of contact" to review proposals, comprehensive strategic plans, and "requests for assistance and regulatory waivers for each local community" if it determines that a waiver would further the goals of a community's strategic plan.

Other Components

In addition to enhanced flexibility to coordinate strategic plans, empowerment zones and enterprise communities will be eligible for five basic forms of incentives and investments: (1) capital incentives such as tax exempt bonds for investments in tangible property in the zone; (2) "empowerment" incentives such as "Resident Empowerment Savings Accounts" for education, purchase of a first home, or starting a small business; (3) employment and training credits for zone residents; (4) investments for enterprise grants and community policing; (5) "zone priority investments" giving designated communities priority status when applying for federal funds essential to their comprehensive economic development strategy, including community development banks, SBA and Commerce funds and technical assistance, and job training.

> Long-term, stable economic growth in severely distressed areas must be achieved through a coordinated plan of economic, human, and physical development...Not a single dollar will go out without a coordinated strategy
>
> --Bill Clinton

Funding

The president has requested that at least $3 billion in existing federal program funds be targeted to empowerment zones and communities. In addition, $500 million is authorized for FY 94 and 95 for "Enterprise Grants" and an equal amount for "Community Policing." Furthermore, the budget includes $4.1 billion over five years in tax incentives for designated communities, with 80 percent of that cost coming from employment and training wage tax credits.

"Regional" continued from page 1

newcomers, as they advanced from a position of non-existence to virtual coverage of the United States. The 60s saw authorization of many new substate organizations including Economic Development Districts (EDDs) created by the Economic Development Administration (see map on pages 4 and 5), and Local Development Districts (LDDs) created by the Appalachian Regional Commission, both in 1965. By their peak year in 1976, 669 regional councils existed.

The 70s were a period of further federal support of regional councils. Significant federal initiatives in *comprehensive* health care planning, *comprehensive* employment training, *comprehensive* substance abuse planning, emergency medical systems *networks*, and elderly care planning *coordination* stimulated regional council entrance into the health and human services arena.

By the end of the 70s there were 47 federal programs that gave preferential treatment to regional councils as eligible recipients or required a regional plan or planning agency for receipt of funds.

Regional activities have diversified, and shifted from federally mandated comprehensive planning to membership assistance and professional service delivery.

The 80s & 90s

The low profile, close federal partnership pattern was rearranged in the 80s as the Reagan presidency ushered in an era of public policy that focused on the private, rather than public sector. Through the Omnibus Budget Reconciliation Act of 1981, 59 categorical grant programs were eliminated, and 80 other categorical programs were consolidated into nine block grants. All of the block grants were state-administered.

Remaining programs were recast to enlarge state responsibility and autonomy, while the federal-regional and federal-local relationships were neglected. in many polaces the locus of regionalism began to shifte to the state level.

Some states maintained regional councils in the absence of strong federal support and gave regional organizations increased authority to directly deliver areawide services during the 80s.

Atkins and Wilson-Gentry identified five rules that regional councils followed in their formative years: 1) stay with the feds, 2) maintain a low profile, 3) provide comprehensive planning assistance only, 4) don't compete with the public sector, 5) and don't compete with the private sector.

Today, regional councils have a new set of rules according to the authors: 1) go with the states, 2) market your agency, 3) pick a few things to do well, 4) invite competition, 5) and be innovative.

This article was based on a paper presented by Patricia S. Atkins and Laura Wilson-Gentry, at the 1992 Regional Cooperation Symposium, Wright State University, Dayton, Ohio, May 29 & 30, 1992.

"Evaluate" continued from page 1

having the desired effect. Made popular by the book *Reinventing Government*, performance accountability sets goals or objectives for a program and measures the progress made toward them. Instead of asking if the correct paperwork was filled out in triplicate, the question becomes: was the region's economy improved?

Compliance accountability relies on detailed rules and regulations to promote conformity. Compliance management assumes people have to be told exactly what to do and how to do it.

Time to Perform

The Director of the Office of Management and Budget, Leon Panetta, has called performance accountability "the foundation for much of what we seek to do, as we go about the task of reinventing government."

Not only is the concept gaining popularity within the executive branch, but also with Congress. Senator William V. Roth Jr. (R-DE) has introduced a bill that would establish performance measurements for federal agencies and set up 10 demonstration projects to try the concept in real life situations. The bill would also create five pilot projects tying program achievement with resources. "Too often in Washington, there is a tendency to focus just on how a program is spending its money and whether it is following proper procedures -- with little concern over what the program is actually achieving," said Roth. The bill has been endorsed by the Clinton administration.

(See the related book review on Inspectors General, and their effectiveness on page 3.)

Training Calendar

July

July 17-20
National Association of Area
[illegible] on Aging (NAAAA)
[illegible] Conference
Washington, DC
[illegible] 296-8130

July 18-21
[illegible]unity Development Society
[illegible] Annual Conference
Milwaukee, WI
(414) 276-7106

[illegible] 16-20
National Association of Counties (NACo)
[illegible]ual Conference
[illegible], IL
(202) 393-6226

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July (continued)

July 22-23
Council of State Community
Development Agencies (COSCDA)
Annual State CDBG Managers Meeting
Washington, DC
(202) 393-6435

July 29-Aug 1
National Association of Housing
and Redevelopment Officials
Annual Conference
Fort Lauderdale, FL
(312) 782-2958

August

August 2-4
Solid Waste Association of
North America (SWANA)
Annual Show
San Jose, CA
(301) 585-2898

September

September 6-9
National Association of
Towns and Townships (NATaT)
Annual Conference
Washington, DC
(202) 737-5200

September 13-17
Solid Waste Association
of North America (SWANA)
Manager of Landfill Operations Training
Seattle, WA
(301) 585-2898

September (continued)

September 19-22
Council of State Community
Development Agencies (COSCDA)
19th Annual Conference
Bolton, VT
(202) 393-6435

October

October 19-22
National Congress for Community
Economic Development (NCCED)
Mid-Year Conference
San Francisco, CA
(202) 234-5009

November

November 6-9
National Association of
Development Organizations (NADO)
26th Annual Conference
San Antonio, TX
(202) 624-7806

November 10-12
Edison Electric Institute
\ American Gas Association
The Role of Utilities in
Community Based Development
Washington, DC
(703) 841-853

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August 30, 1993

The Honorable Paul D. Wellstone
United States Senate
702 Hart Senate Office Building
Washington, DC 20510

Dear Senator Wellstone:

On behalf of Terry Stone, Jim Deffenbaugh, and the members of the National Association of Development Organizations (NADO), let me express my appreciation for your interest in the effectiveness of the Department of Agriculture and the Small Business Administration's rural efforts. With your leadership as Chairman of the Senate Small Business Committee Subcommittee on Rural Economy and Family Farming, I am confident that the federal government's response in rural areas will be more focused and of increased benefit to rural consumers and entrepreneurs.

I appreciated the opportunity to testify and offer my insight on the effectiveness of federal programs in rural and small town America, and I welcome the chance to answer further questions in writing. My responses to the questions you provided me on behalf of Senator Pressler are as follows:

- *Development organizations in my home state of South Dakota have cited significant paperwork requirements as one of the largest barriers between a small community and federal aid. Is this a common stumbling block for rural economies?*

Yes, a quarter of those responding to a survey[1] of rural local elected officials and economic development professionals said that federal programs require excessive administrative duties and too much paperwork. In fact, 44 percent cited "red tape" and the inflexible nature of federal programs as their greatest impediment in implementing federal programs (a copy of the report is attached).

As was noted a number of times during the testimony of both panels of witnesses, the Kansas Rural Development Council's effort to design and test a single loan application form for all federal, state and local small business finance programs is a successful model that should be studied and used nationwide. Efforts such as this streamline the application process by reducing duplicitous forms, reducing administrative burdens on applicants, and easing and fostering interagency and intergovernmental cooperation, all of which will help target economic development efforts and stretch

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[1]*Rural America: Worth the Investment* was released January 13, 1993 by the National Association of Development Organizations, the National Association of Towns and Townships and the National Association of Counties. The report summarized the finding of a survey of 1050 rural elected officials and regional development organizations.

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August 30, 1993
Page 2

limited government dollars. (This effort was initiated by NADO Board of Directors' member Jack Alumbaugh.)

- *An article that recently appeared in the Los Angeles Times labeled South Dakota's economy as a "Promised Land to major U.S. corporations" because of its "bottom-up" approach to economic stimulation and job creation. Have local economic initiatives in other states been successful in enlisting federal and state cooperation for improved rural economies?*

In rural areas across the country, regional development organizations have successfully linked federal, state, local and private sector dollars to create economic opportunities and develop long-term, well-paying jobs in rural economies. The Economic Development Administration's network of Economic Development Districts (EDDs) has enabled distressed communities to reverse their declining economic base and take control of the direction they will take, all of which has been accomplished with local people guiding the path and local people holding the reins. EDDs, as part of their enabling legislation, are charged with developing an Overall Economic Development Program (OEDP) as a blueprint of their economic development efforts. OEDPs must meet the approval of the districts' boards of directors, which include local elected officials comprising at least half of its membership.

Through local "ownership" -- both through accountability and policymaking -- regional development organizations have a proven and successful track record of providing rural communities with the professional capacity to enlist federal and state cooperation and economic development assistance.

The efforts of the State Rural Development Councils (as mentioned in both USDA Under Secretary for Small Community and Rural Development Bob Nash and SBA Assistant Administrator for Financial Assistance Charles Hertzberg's testimony) in fostering federal and state cooperation to solve locally-identified needs is also helpful.

- *Ms. Wohlbruck and Mr. Stone, what type of federal programs will your groups advocate for long-term solutions to those economies hit heaviest by the "Great Flood of '93"?*

Long-term strategic planning and local technical capacity form the foundation on which economic development is built and should be the core of the federal relief effort. The capacity to plan and implement recovery efforts are first and foremost. For this, the Economic Development Administration's programs will be essential. Without proper and adequate planning, state and federal dollars will not be used to best meet the needs of those affected by the flood. Once a plan is developed, the communities will need a wide range of federal programs, from public works grants to help rebuild infrastructure to Small Business Administration loans to help businesses reopen to Department of Housing and Urban Development and Farmers Home Administration programs to help people rebuild their homes.

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The need for locally guided and based institutional capacity is as essential for chronically distressed and disadvantaged communities as it is for those communities adversely affected by a sudden economic downturn or a natural disaster. In rural communities, where professional and technical capacity is so limited, regional development organizations are the cornerstone of the economic development foundation. Regional development organizations provide the capacity to develop *and implement* long-range plans to help communities build and strengthen their economies, as well as clean up after and recover from this sever flood.

For flood affected communities, regional development organizations can coordinate efforts at the local level so that locally identified needs are met. The staff of regional development organizations provide technical assistance to local governments and businesses so they can apply for federal and state grants to aid in their recovery.

I appreciate the opportunity to testify and answer these additional questions. I hope that my testimony, and that of the other witnesses, proves helpful as you continue your efforts to improve the federal role in rural economic development.

If you have further questions or there is any additional information or assistance I can provide you and your staff, please contact me, or NADO Legislative Analyst Scott Whipple, at 624-7806.

Sincerely yours,

Aliceann Wohlbruck

Aliceann Wohlbruck
Executive Director

Senator WELLSTONE. Thank you.

Mr. Deffenbaugh, first of all, let me welcome you and send word from Senator Kempthorne that he is in an Armed Services Committee mark-up, which is the one thing you cannot miss. He was trying to get here; he may still get here. But in case he does not while you are testifying, I wanted to let you know what his conflict is right now.

Thank you for coming.

STATEMENT OF JIM DEFFENBAUGH, EXECUTIVE DIRECTOR, PANHANDLE AREA COUNCIL, HAYDEN, IDAHO

Mr. DEFFENBAUGH. My name is Jim Deffenbaugh; I am the executive director of the Panhandle Area Council from northern Idaho. I would like to thank you for inviting me to testify at today's hearing.

PAC is one of six regional economic development planning districts in the State of Idaho. Our area of responsibility covers five northern counties of Idaho. The area encompasses 4,731,000 acres with a population of 127,000. Two Native American Indian tribes reside in our area, the Coeur d'Alene's and the Kootenai's, and the region's land resources are divided up into about 53 percent Federal, state, and municipal; 47 percent private, of which 12 percent is farm acreage.

PAC serves our area of responsibility through the following major programs: the Small Business Development Center program; we are a certified development company under SBA; we are the only regional planning district that is a micro-lender under SBAs first demonstration program. We own and operate two business incubators; we are a revolving loan fund lender under both EDA and the Community Development Block Grant Program. We are also an intermediary lender under the Farm Home Administration. We are an economic development district, a regional transportation planning organization, a community housing development organization. We are a partner of the Private Industry Council, Council of Governments and, finally, an associate office of the U.S. Department of Commerce, their International Trading Department.

To provide these services we work directly with the Small Business Administration, the Department of Commerce, the Economic Development Administration, the Department of Housing and Urban Development, Farm Home Administration, Department of Health and Human Services, and the Department of Labor.

In the 22 years PAC has been serving our area, some of the most promising programs that we have used to meet the needs of small business concerns in our area include counseling and training offered by the Small Business Development Center, the 504 lending program, the Revolving Loan Fund programs, the Microloan program, and our two business incubators.

For the first round of funding of the SBA Microloan fund demonstration program, PAC was the only regional planning district to participate in the program nationally. The intermediary loan we received from SBA was for $200,000. We anticipated loaning the funds out over a 3-year period. The first loan was funded in January 1993. By June of this year we had committed $175,000 of our

loan. Our loan portfolio is secured in all cases by equipment, and we average now about $8200 in each loan. If we continue at the current pace of lending our fund will be fully committed by October 1993 approximately 2 years ahead of schedule.

Most of the microloans have been to young businesses needing equipment to help foster expansion. Our experience has shown that young businesses 1 to 3 years old have trouble finding credit sources even for small capital equipment needs. The Microloan program has filled this critical need.

As an example, one of our loans was made to a tenant of our Sandpoint Incubator. In this incubator, we have a complete commercial kitchen. Our borrower makes Chocolate Huckleberry candies in the kitchen. After a year of operation the borrower wanted to expand her production and needed a special confection mixer and cooling equipment. PAC, through our Microloan program, loaned $5,000 to our tenant to purchase a mixer and cooler. With the increased production ability, the borrower was able to secure a contract with Lighthouse Foods of Idaho to provide Huckleberry Chocolate candies to all their distribution outlets. The business' gross receipts have increased over 800 percent since the new contract.

I brought some chocolates along if you would like to sample those. We do have things other than potatoes in Idaho.

Senator WELLSTONE. Thank you.

Mr. DEFFENBAUGH. Although the Microloan program is still in the demonstration phase, there are very few problems with the program and its execution by SBA. From a practical standpoint, we view the requirement to pay the loan as the only problem. It is understandable for the Government to maintain capital and not to grant these funds; however, because of the tremendous need it would be valuable to communities to allow the funds to remain within the community as long as they are used for microloans. Perhaps the borrowing agencies could make interest payments on the fund if they choose to revolve a fund on a continuous basis.

Another highly successful venture has been the development of our two business incubators. The facilities, coupled with the counseling services of the Small Business Development Center, have fostered the establishment and development of 16 new manufacturing businesses with 110 jobs in a 3-year period. One business, Embroidered Corporate Image, was featured in Forbes Magazine in 1993. The article described their extraordinary growth through the assistance of the SBDC's staff and the incubator facility. Today this company has 50 employees, is housed in their new 504-financed 14,000-square foot building, and continues to use many of the programs PAC has to offer.

As a result of our experience in counseling many small businesses, two problems seem to face the majority of these businesses. One is the lack of capital, capital reserves or credit to take advantage of market opportunities, and the other is the confusion and fear over government requirements in the operation of their business. Most small business owners indicate that they understand the good intentions behind such issues as health care reform, the Americans with Disabilities Act, environmental regulation, minimum wage hikes, etc. Individually, the regulations may not seem so bad. It is

the cumulative effect of these new requirements piled on year after year that is beginning to bury them.

Even though there is help out there many owners simply cannot afford the time to get away from the store, nor afford the cost of having someone else do the work for them. The result is fear of reprisal and loss of capital and income. The business counseling services have helped many to address these concerns regarding government regulations. At this stage, the program is severely hampered by the limitations of resources to meet the demand of small business concerns.

The promise to own and operate your own business is an important part of rural life. Most people in small business know the facts of how to sell or manufacture their products. If Government is serious about helping foster the continued operation and development of small businesses, we need to develop a system that addresses the real concerns facing these businesses. Before rules are imposed on businesses you need to consider the effect on America's small businesses. A $50,000 piece of equipment required to bring a manufacturer in line with clean air rules is one thing to Kaiser Aluminum Corporation but quite another to Unitec Fiberglass with their three employees.

Our area, PAC, is fortunate to be able to participate in the micro-lending program and the Small Business Development Center. Both of these programs address two critical problems facing small businesses. As limited as the programs are, they operate with relative efficiency and limited confining rules and regulations.

I would like to thank you for this opportunity to testify and would be glad to answer your questions.

[The prepared statement of Mr. Deffenbaugh follows:]

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PAC

PANHANDLE
AREA
COUNCIL

Council of Governments

Certified Development Company

Idaho Small Business Development Center

Government Procurement

International Trade Associate Office

Private Industry Council

Business Incubator Center

Testimony of:

JAMES L. DEFFENBAUGH

Executive Director

PANHANDLE AREA COUNCIL, INC.

Hayden, Idaho

before the

SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING

in the

U.S. SENATE

July 21, 1993

Washington, DC

STATEMENT OF JIM DEFFENBAUGH, EXECUTIVE DIRECTOR OF THE PANHANDLE AREA COUNCIL (NORTH IDAHO), BEFORE THE SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING, U.S. SENATE, July 21, 1993.

Mr. Chairman, members of the Subcommittee on Rural Economy and Family Farming, I am Jim Deffenbaugh, Executive Director of the Panhandle Area Council (PAC) from Northern Idaho. I also serve as a Board Member of the National Association of Development Organizations (NADO).

I would like to thank you, Mr. Chairman for inviting me to testify at today's hearing.

PAC is one of six regional economic development planning districts in the State of Idaho. Our area of responsibility covers the five most northern counties of Idaho. The area comprises 4,731,874 acres and a population of approximately 127,907. Two Native American Indian Tribes reside in the area: the Coeur d'Alene's and the Kootenai's. The region's land resources are divided into about 53% federal, state and municipal ownership and 47% private ownership, with 12% of that private ownership in farm acreage.

PAC serves the our area of responsibility through the following major programs:

Small Business Development Center
Certified Development Company
Micro Lender Under SBA's Demonstration Program
Incubator Business Innovation Centers
Revolving Loan Fund Lender (EDA & CDBG)
Intermediary Lender Under Farm Home Administration
Economic Development District Planning Services
Regional Transportation Planning Organization
Community Housing Development Organization
Private Industry Council
Council of Governments
Associate Office for the U.S. Department of Commerce

To provide these services PAC works directly with the following Federal agencies:

Small Business Administration
Department of Commerce
Economic Development Administration
Department of Housing and Urban Development

Farm Home Administration
Department of Health and Human Services
Department of Labor

In the twenty-two years PAC has been serving our area some of the most promising programs that we have used to meet the needs of Small Business Concerns in our area include the counseling and training programs offered by the Small Business Development Center, the 504 loan program, the Revolving Loan Fund programs, the Micro loan program and the Business Incubators.

For the first round of funding of the SBA Micro loan fund demonstration program, PAC was the only Regional planning district to participate in the program nationally. The intermediary loan we received from SBA was for $200,000. We anticipated loaning out the funds over a three year period. The first loan funded was in January of 1993. By June we had committed to loan $175,000 of our fund. Our loan portfolio is secured in each case by equipment and the average loan is $8,200. If we continue the current pace of lending, our fund will be fully committed by October 1993. Approximately 2 years ahead of schedule.

Most of the Micro loans have been to young businesses needing equipment to help foster expansion. Our experience has shown that young businesses, a year to three years old, have trouble finding credit sources even for small capital equipment needs. This program has filled that critical need.

As an example, one of our first loans was to a tenant of our Sandpoint Incubator. In this incubator we have a complete commercial kitchen. Our borrower makes Chocolate Huckleberry candies in the kitchen. After a year of operation the borrower wanted to expand her production and needed a special confection mixer and cooling equipment. PAC through the Micro Loan program loaned to our tenant $5,000 to purchase the mixer and cooler. With the increased production ability, the borrower was able to secure a contract with Lighthouse Foods of Idaho to provide all their distribution outlets with Chocolate Huckleberry Candies. The business's gross receipts have increased by over 800% since the new contract.

Although the Micro Loan Program is still in the demonstration phase there are very few problems with the program and its execution by SBA. From a practical point of view we view the requirement to repay the loan the only problem. It is understandable for the Government to maintain the capital and not to grant these funds, however because of the tremendous need it would be valuable to communities to allow the funds to remain with the community as long as they are used for micro loans. Perhaps the borrowing agencies could make interest payments on the fund if they chose to revolve the funds on a continuous basis.

In our case, another highly successful venture has been the development of our two business Incubators. The facilities coupled with the Counseling services of the Small Business Development Center have helped foster the establishment and

development of 16 new manufacturing businesses with 110 new jobs in a short three year period. One business, Embroidered Corporate Image, was featured in Forbes magazine, February 1993. The article described their extraordinary growth through the assistance of the SBDC staff and incubator facility. Today this Company has 50 employees, is housed in their new 504 financed 14,000 sq. ft. building and continues to use the many services of PAC to promote continued growth.

As a result of our experience in counseling many small businesses, two problems seem to face the majority of businesses. One is the lack of capital or capital reserves or credit to take advantage of market opportunities and the other is the fear and confusion over government requirements in the operation of their businesses.

Most Small Business owners indicate they understand the good intentions behind health care reform, the Americans with Disabilities Act, environmental regulations, minimum wage hikes and the like. Individually, the regulations may not seem so bad. It's the cumulative effect on new requirements piled on year after year that's burying them.

Even though there is help out there many owners simply can't afford time away from the store to get it, or afford the cost of having someone else do it for them. The result is fear of reprisal and loss of capital and income.

The business counseling services have helped many address their concerns regarding government regulations. At this stage the program is severely hampered by the limitations of resources to meet the demand from Small Business Concerns.

The promise to own and operate your own business is an important part of rural life. Most people in small business know the basics of how to sell or manufacture their products. If government is serious about helping foster the continued operation and development of small businesses we need to develop a system that addresses the real concerns facing small businesses. Rules implemented on Businesses need to consider the effect on America's Small Businesses. A $50,000 piece of equipment required to bring a manufacturer in line with clean air rules is one thing to a Kaiser Aluminum Corporation, but quite another to Unitec Fiberglass and their three employees.

Our area is fortunate to be able to participate in the micro lending program and the SBDC. Both these programs address two critical problems facing small businesses. As limited as the programs are they operate with relative efficiency and limited confining rules and regulations.

I would like to thank you for the opportunity to testify on the behalf of small businesses in rural areas. If you have any questions, I would be happy to try to answer them.

The CHAIRMAN. Thank you very much, Mr. Deffenbaugh.
Mr. Stone.

STATEMENT OF TERENCE STONE, EXECUTIVE DIRECTOR, REGION NINE DEVELOPMENT COMMISSION, MANKATO, MN

Mr. STONE. Thank you, Senator Wellstone and Members of the Committee. I appreciate the opportunity to testify before you. My name is Terence Stone; I am the executive director of the Region Nine Development Commission in Mankato, MN. We are a 9-county area with a population of about 225,000. Nine counties, 72 cities. I am also the mayor of Madelia which is a community of 2237 in about the middle of the state, right down on the south end, so that gives you some idea.

We are a very agricultural area. Our largest city has a population of less than 40,000. Our smallest city has a population of under 100.

I have been with the Commission for 20 years. I have been the director of the Commission for 17 years. Twenty-two years ago, our 72 small towns and cities were vibrant, self-sufficient agricultural trade centers with schools, doctors, small business, and retail trade. Now, during the tough times in the 1980s and then beyond that, we see a lot of businesses closing, farmers going out of business, schools consolidating, and we have lost a lot of population in seven of our nine counties. So it has been a time of great challenge.

Communities and counties have responded to the challenge with a grassroots effort to spur economic development. We can talk with great pride in our Region Nine area about our network of economic development programs where we coordinate city, county, State and Federal programs to give assistance to the small businesses.

There are several Federal programs that we work with. Again, we work with EDA, we work with Farmers Home, we work with some of the state programs. Senator Wellstone, as you know, we have some very good programs at the state level in Minnesota. In any of this, I look at what we really need as an agency, an economic development agency, are the tools. I think that is where all of these things fit in, as tools that we can use in our toolbox to provide help to small communities and small businesses. But I am going to focus on SBA because that is what we are talking about here today.

At the Region Nine Development Commission we have economic development specialists who assist our local agencies, banks, and small businesses. We have made extensive use of the 7(a) and 504 programs to meet the financing needs. Often, these are in conjunction with some of the other programs that we have or some other programs that are available. It is putting that package together to make things happen for small business.

Since we began our economic development program in 1984 we have packaged about 60 7(a) loans and they total over $13 million, creating and retaining over 800 jobs in the area.

Our corporation—I am chief executive officer of the Region Nine Development Corporation. We have a portfolio of 32 loans. The SBA portion is $4.7 million. We have leveraged about $8.3 million in private financing and $2 million in equity. That has had a great

impact in our area. It has helped a lot in keeping businesses in business and helping some other businesses get started.

An example of a small manufacturer in a city of 800 people. The manufacturer was becoming increasingly successful, had great sales with an expanding work force. The manufacturer needed to construct a new building to provide enough space to expand production and meet sales potential. The banker was interested and felt the business owner would be a good credit risk, but the banker had no experience in analyzing what the creditworthiness of that business would be. Especially one that was experiencing rapid growth. He was very concerned about the collateral value of the building in a community like that. I will also give you the example of the City of Madelia. We have one entrepreneur who owns most of the north side of Main Street, basically because nobody else is interested in buying. And that is what happens in communities like ours. So how does a banker put a value on that?

The bank was going to require 50 percent equity from that person. Well, that was not going to happen. The local economic development director asked us for assistance and we worked with the manufacturer and the bank and were able to package an SBA loan program with the EDA Revolving Loan Fund to make the expansion possible and create some new jobs in that community.

The loan programs directly assist private lenders in dealing with barriers to sound rural economic development. I am kind of summarizing; you have the written statement, but in light of the time I am capsulizing. But collateral is a particular problem in rural areas. Primarily agricultural lenders, small town banks, understand collateralized loans much better than repayment through cash flow. Again, fixed assets are uncertain, and that makes it very difficult many times.

Our experience with SBA loan programs has been very positive. The programs are flexible, they are suited to a wide variety of businesses. Since last year we have been able to use the 504 program, for example, in two agriculture enterprises that we would not have been able to use prior to that time. That has been a great help to us.

Small business development centers that are run through SBA have been a great help to us in Minnesota because they do give business management and marketing assistance. We have found the Minnesota SBA staff to be professional, helpful and available.

In the context of the positive experience, I would like to suggest some ways to make SBA programs even more accessible and useful for rural economic development.

First of all, it would be very helpful if we could develop an expedited loan process through the SBA Certified Development Corporations that demonstrate sufficient loan capacity. SBA has a certified lender program for banks that have a high level of SBA loan activity. These lenders conduct a thorough loan review and can secure SBA approval in a few days. Very few certified lenders exist in rural areas, and loans through the regular SBA review can take several weeks. Many rural CDCs have high SBA volume and conduct excellent loan reviews. Utilizing these CDCs as a type of certified lender would greatly enhance the reputation and utility of the

SBA as a financing tool in our rural areas. This is one we feel very strongly about.

Senator WELLSTONE. I think we do, too.

Mr. STONE. Again, one of the problems SBA has is staffing, and that is what slows things up sometimes. It is not a matter of them delaying anything; it is a matter of the demand being so high. So we could certainly use sufficient staff to process the loan volume.

We could also have help in aggressively marketing SBA programs to the rural areas. Actually, I think an organization like ours is doing a better job of marketing SBA than SBA does themselves. I think some of that again comes back to resources and the capacity to get to the local media and that kind of thing to market those loans.

The other thing that we would like to see—and Aliceann made reference to it—is expanding the Microloan program and taking a strong look at medium-sized loans because we, for example, have a very excellent loan review process to assist banks in understanding the credit needs of small business. If we could use that to do some microloans and medium-sized loans it would be very helpful.

In summary, the SBA programs are an excellent and very useful resource for rural economic development. Stable funding, adequate staffing, increased reliance on CDCs, and expansion of the Microloan program would enhance the effectiveness of the program. We strongly urge that any rural economic development strategy include the Small Business Administration and its national network of certified development corporations.

Thanks for the opportunity to appear before the Subcommittee.

[The prepared statement of Mr. Stone follows:]

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TESTIMONY OF
TERENCE STONE, EXECUTIVE DIRECTOR
REGION NINE DEVELOPMENT COMMISSION
410 SOUTH FIFTH STREET
MANKATO, MINNESOTA 56001
(507)387-5643

TO THE SENATE SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING
SENATOR PAUL WELLSTONE, CHAIRMAN

JULY 21, 1993

Senator Wellstone, and members of the Committee, thank you for this opportunity to address this Committee on the role of federal business assistance and finance programs.

My name is Terence Stone, and I am the Executive Director of the Region Nine Development Commission, a nine county planning and development agency serving south central Minnesota. Region Nine operates a Small Business Administration Certified Development Corporation, is the Economic Development Administration Planning District, and operates a five county EDA Revolving Loan Fund. I also serve as the Mayor of Madelia, population 2,237, and I am Past President of the National Association of Development Organizations, representing multi-county regional development organizations throughout the United States.

The Region Nine Development Commission is located in a very rural and agricultural area. Our largest city has a population of less than 40,000 people, our smallest less than 100. In my twenty years with the Commission, I have been witness to profound change in our rural economy. Twenty years ago, our seventy two small towns and cities were vibrant, self-sufficient agricultural trade centers, with schools, doctors, small businesses, and retail trade. In the eighties, we saw farms disappear, schools consolidate, and businesses close. Our region lost population in seven of our nine counties. This has been a time of great challenge.

Our communities and counties responded to this challenge with a grassroots effort to spur economic development. In 1993, Region Nine can speak with pride of a network of economic development programs at the city, county, regional, state, and federal level. Through innovative linkages and assistance, we are bringing the resources of the federal government to both large and small communities in our region.

While there are several federal programs that have aided in stabilizing the economy of Region Nine, I will particularly focus on the programs of the Small Business Administration. We have found the SBA to be of great value and a positive force for rural development.

At the Region Nine Development Commission, we have economic development specialists who assist local development agencies, banks, and small businesses. With a focus on finance, our economic developers develop finance packages for small business start up and expansions. We have made extensive use of the SBA 7a and 504 loan programs to meet the financing needs of regional businesses.

Since we began our economic development program in 1984, we have packaged sixty SBA 7a loan guaranties. These loans totaled over $13,000,000, creating and retaining over 800 jobs. The Region Nine Development Corporation, our SBA Certified Development Corporation has a portfolio of 32 loans. The SBA portion of $4.7 million leveraged $8.3 million in private financing, and $2 million in equity. Clearly, the Small Business Administration Programs have been of great benefit to private sector business development in our area.

We believe that the SBA is an ideal tool for economic development in rural areas. Most of the banks in Region Nine are in small towns. They make agricultural and home loans, and do a good job. But in a city of 2,500 or less, these banks see very few business loans. Not only do loan officers have limited day to day experience with business credit analysis, there are special problems in financing small business in rural areas.

Let me give the example of a small manufacturer, in a city of 800 people. This manufacturer was becoming increasingly successful, had great sales, and an expanding workforce. He desperately needed to construct a new building to provide enough space to expand production and meet his sales potential. His banker was very interested, and felt the business owner would be a good credit risk. Unfortunately, the banker had no experience in analyzing the creditworthiness of a stable business, much less one experiencing rapid growth. Additionally, he was very concerned about the collateral value of a building in such a small community. As a result, the bank decided to require an equity position of 50% to provide a level of comfort for the bank. The manufacturer couldn't provide that much equity, and the expansion effort was stalled.

The local economic development director asked for assistance. Working with the manufacturer and the bank, we were able to package SBA loan programs with an Economic Development Administration revolving loan to make the expansion possible and create new jobs.

SBA loan programs directly assist private lenders in dealing with barriers to sound rural economic development. Through thorough credit analysis by the Certified Development Corporation and SBA staff, local banks receive professional assistance in understanding the business and its ability to handle debt. Through loan guarantees and a second position of 504 fixed asset financing, the SBA allows private lenders to provide financing at reasonable terms and interest.

Collateral is a particular problem in rural areas. Primarily agricultural lenders, small town banks understand collateralized loans, better than repayment through cash flow. The collateral value of fixed assets in a small town is uncertain, as the resale value of a building could range from nothing to 100%. SBA assistance is often the key factor in small city business expansions.

Our experience with Small Business Administration loan programs has been very positive. SBA programs are flexible, suited to a wide variety of businesses, and well received by local lenders and small businesses. The Small Business Development Centers are an excellent source of business management and marketing assistance. We have found the Minnesota SBA staff to be very professional, helpful, and available. In the context of this positive experience, let me also suggest some ways to make SBA programs even more accessible and useful for rural economic development.

1) Develop an expedited loan process through SBA Certified Development Corporations that demonstrate sufficient loan activity. SBA has a certified lender program for banks that have a high level of SBA loan activity. These lenders conduct a thorough loan review, and can secure SBA approval in a few days. Very few certified lenders exist in rural areas, and loans through the regular SBA loan review can take several weeks. Many rural CDC's have high SBA volumes, and conduct excellent loan reviews. Utilizing these CDC's as a type of certified lender would greatly enhance the reputation and utility of SBA as a finance tool in rural areas.

2) Provide sufficient staff to process loan volumes. SBA state staff is frequently overwhelmed with loan applications, and turnaround time expands to the point where projects cannot be completed in the construction season, or other finance falls apart.

3) Aggressively market SBA programs to rural areas. The Region Nine Development Commission markets SBA programs through a variety of means, including visits to all lenders, an annual golf outing, and seminars on business finance programs. SBA itself lacks the resources to market programs extensively; as a result many lenders are very unfamiliar with the SBA.

4) Expand the Micro-loan program and take a strong look at medium sized loans. Region Nine developed a loan review process to assist banks in understanding credit needs of very small businesses. At this time, the limited Micro-loan program is one of the few available resources to assist small start up businesses, due to the complexity and fee requirements of traditional loan programs.

In summary, the Small Business Administration programs are an excellent and very useful resource for rural economic development. Stable funding, adequate staffing, increased reliance on Certified Development Corporations, and expansion of the Micro-loan program would enhance the effectiveness of these program. We would strongly urge that any rural economic development strategy include the Small Business Administration and its national network of Certified Development Corporations.

Thank you for this opportunity to appear before the Committee.

Senator WELLSTONE. Thank you, Mr. Stone.

I have a small apology. I am supposed to get down to the floor in about 10 minutes, and I actually have a number of questions to ask. I wonder, first of all, whether I could submit some questions to you in writing. There are a number of suggestions that I think we can follow—it does not even have to be that formal—on the phone, because there are a number of suggestions that you all have made that I would like to draw from by telephone conversation. Because I really want this to be an active Subcommittee. Chairman Bumpers has been very clear in giving me a lot of support and I think he wants us to push this forward.

So I would not want you to think the fact that I have to be there is any indication of lack of interest. Brian Ahlberg, who works with me, wants to stay and talk some, and there are some other very able staff here. I wonder whether you all could stay a little bit longer so that there could be more follow-up, and then I also can be back in touch with you. I may have a few questions in writing to submit to you as well if that is all right. If I get started on the questions we will go another hour and then I will be even later.

I would like to thank each of you for your testimony, and we will do the follow-up. We will try and translate as much as we can. And some of the changes we will be able to make may be, within some of the budget constraints, micro at the beginning, but I think some of what you all have talked about is doable right now. Then there is the future, when I think we'll have a bigger agenda, more of a commitment.

But thank you very much. I really appreciate your being here. And my apologies for having to leave.

[Whereupon, at 11:12 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

U.S. SMALL BUSINESS ADMINISTRATION,
WASHINGTON, DC 20416,
August 18, 1993.

SENATOR PAUL D. WELLSTONE,
United States Senate,
Washington, DC 20510-2303.

DEAR SENATOR WELLSTONE. Thank you for your very kind letter July 27 regarding some questions you and Senator Pressler have as follow-up to the July 21 hearing on the SBA's role in rural economic development. We are pleased that you found our testimony to be informative and helpful as the Subcommittee on Rural Economy and Family Farming considers future federal roles in rural economic development.

Enclosed are our answers to the above-referenced questions. We hope that you find them to be responsive and beneficial. If you need clarification on any of these, please feel free to call. My number is 205-6490, and both Allan Mandel and Dan Gibb are on 205-6485. For Senator Pressler's information, the Agency's Office of Advocacy is handling telecommunication technology issues, and the contact is Barry Pineles, at 205-6532.

If it is possible, we would like to get 150 copies of the final record of the hearing. To better ensure consistent communication among all of our field offices of our commitment to rural economic development, we would like to distribute the hearing record to all of them and to other interested parties, including the Monday Management Group of the National Initiative on Rural America. Dan Gibb could coordinate this matter with Brian Ahlberg. Your consideration of this request will be much appreciated.

Again, we welcome the opportunity to work with you and other Members of the Subcommittee on rural economic development matters, and we appreciate the way the July 21 hearing was prepared for, conducted and followed-through upon. If we can be of further assistance, please do not hesitate to contact us.

Sincerely,

CHARLES R. HERTZBERG,
Assistant Administrator for Financial Assistance.

Enclosure

RESPONSE TO QUESTION FROM SENATOR PRESSLER

Question 4. This question is for both Mr. Hertzberg and Mr. Nash. New generations of telecommunications technologies can expand opportunities for small businesses—especially in more isolated areas of rural America. I know the Administration considers development of these technologies and the resulting so-called information "super highway" one of its significant priorities. Indeed, I worked closely with Vice President Gore on these issues when he and I served on the Commerce Committee together.

I would ask each of you to describe what role your agencies are playing or planning to play in making new telecommunications technologies available to rural America.

Response. Beyond the SBA's usage of such technologies for our own information dissemination purposes, as described earlier on page 3, our Office of Advocacy has been significantly involved in the debate over telecommunications infrastructure. In response to a 1990 National Telecommunication and Information Administration notice of inquiry on telecommunications infrastructure, the Office of Advocacy stated:

> "Without an adequate telecommunications infrastructure, rural areas will stand little chance of attracting high technology and service businesses that demand access to voice, video, and data communications. The development of a telecommunications infrastructure will provide these communities with the opportunity to diversify their economy and reduce their reliance on cyclic extractive industries."

The Office of Advocacy, as this excerpt demonstrates, well understands the importance of an adequate telecommunications infrastructure for rural America.

To ensure that rural America is not bypassed in the development of this infrastructure, the Office of Advocacy has commented on numerous occasions to the Federal Communications Commission about the need to ensure universal access to wireline telecommunication services. The Office of Advocacy also works closely with the Federal Communications Commission's Small Business Office to develop innovative policies ensuring that small businesses can participate and have access to the telecommunications revolution.

One particular aspect of that telecommunications infrastructure is a new service called personal communications services. Such networks will provide an entire new realm of telecommunications services to urban and rural areas. The Emerging Telecommunications Technology Act of 1993, which authorizes the transfer (through auctions) of spectrum from federal use to commercial use, mandates that the Federal Communications Commission adopt procedures for conducting the auctions which encourage the maximum participation by small businesses. The Act also mandates that any procedures maximize the availability of these new services to rural areas.

The Office of Advocacy will take an active role in seeing that the commission carries out its statutory responsibilities in this regard. Such actions may also involve coordination with other programs within the Small Business Administration, such as those that provide financial or investment assistance or bidding preferences. Small firms interested/involved in this type of telecommunication technology might find our programs of benefit, and our field offices will be happy to hear from them.

RESPONSES TO QUESTIONS FROM SENATOR WELLSTONE FOR CHARLES HERTZBERG

Question 1. Can you give a rundown of specific credit or technical assistance programs that are targeted to rural economic development within SBA?

Other than the gross figures contained in your statement concerning the portion of total SBA loans and the aggregate dollar amount of those loans to "rural" areas, has the office collected or made available other statistical data that would help either policy-makers or businesspeople devise promising strategies for rural economic development?

Response. We have made certain that the SBA Certified Development Companies understand that Rural Development is a statutorily-mandated public policy goal for the 504 Program. Our debenture guaranty maximum is $1 million on a rural project, as opposed to being capped at only $750,000 on a non-rural project. The job creation requirement (of at least one job for every $35,000 in loan guaranty dollars) is waived for projects located in rural areas. Additionally, priority was given to CDCs serving rural areas in the selection of Accredited Lender Program CDCs. We are encouraging more CDCs to increase their activities as Rural Economic Development Resource Centers.

The 502 Program continues to be focused on rural projects. For rural areas, 85 to 90 percent of the loan may be guaranteed by SBA, while in non-rural areas, 40 percent may be guaranteed by SBA. Our new Associate Development Company and probationary CDC programs will lead to more CDC/504 coverage in rural areas.

Participating lenders have been made aware of the fee-sharing incentive for them to make 7(a) guaranty loans in rural areas, i.e., we allow the lender a guaranty fee reduction of up to $750 for such a loan. Where SBA's share of the loan is $75,000 or less, the lender is charged a reduced guaranty fee of 1.0 percent of the guaranteed portion. On loans where the SBA's share exceeds $75,000, the lender is charged a guaranty fee that is $750 less than the standard 2 percent.

SBA's Microloan Program is a relatively new and innovative initiative that was developed for situations where a small loan can make a difference. Loans range from less than $100 to a maximum of $25,000, averaging about $10,000. SBA has made funds available to non-profit organizations for the purposes of lending to these smallest of the small businesses. These organizations also provide management and technical assistance. This is very intensive hands-on assistance. Over 60 percent (57) of the first 94 intermediaries selected to deliver our new Microloan Program are serving at least some rural areas.

The SBA is proposing a comprehensive revision of the regulations for the Small Business Investment Company and the Specialized Small Business Investment Company programs. The higher capitalization requirements being proposed for SBICs/SSBICs are more stringent for the urban-serving investment companies than they are for those serving rural areas. In short, the rural-serving investment companies will need to come up with less additional capital than will the urban-serving ones.

The Surety Bond Guarantee Program also emphasizes the Agency's commitment to better ensuring equitable availability of our assistance to rural-located small busi-

nesses. The result is that rural contractors are about as population-proportionately represented in the SBG Program's portfolio as rural small businesses are in the other financial programs of the SBA.

Many of our Business Development activities are targeted to rural areas at the initiative of our District offices. In Tennessee, for example, our Nashville District Office (in conjunction with the Tennessee Valley Authority) has pioneered an innovative, traveling technical assistance program that visits many small towns in the State. The SBA and local community leaders work together to plan an intensive week of workshops and other forms of small business training. A large tractor trailer that is a self-contained teaching center containing computers, books, and other teaching aids is driven to the community as part of the event. This program has been widely praised. In fact, the SBA utilizes a second Mobile Small Business Assistance Center in those Southeastern States which are not part of the TVA's operating territory. Over the past several years, we have cosponsored approximately 100 of these Business Development Weeks, with an estimated participation of more than 20,000.

Many of our district directors are actively participating on State Rural Development Councils as part of the National Initiative on Rural America. While this is not a specific credit or technical assistance program, this participation is directly enhancing the delivery of SBA services to rural communities. This activity both increases our district directors' awareness of rural needs and improves rural communities' awareness of our services. For instance, our New Mexico District director reports that his networking through the Council has resulted in some additional rural lenders now participating with the SBA.

In Oregon, our district office is working with the Rural Development Council to assist timber-dependent communities with their economic adjustment/diversification efforts, by helping steer more Federal procurement opportunities to rural small businesses.

Overall, our field offices are active participants on the State Rural Development Councils, and they are supportive of the Councils' priorities, strategies and initiatives as much as possible.

Our Office of Business Development helps support an extensive network of external resources, including more than 700 Small Business Development Centers/Satellites, over 500 Small Business Institutes, and more than 700 Chapters of the Service Corps of Retired Executives (with over 13,000 volunteers). These resources have committed to helping promote community and small business development in their rural areas. This assistance is quite varied, ranging from helping communities inventory their development strengths and weaknesses, to helping them develop their strategy plans, to assisting individual small businesses with preparing their business plan and marketing assessments, and helping them access information and capital, etc.

In response to Senator Pressler's question, regarding the making of new telecommunications technologies available to rural areas, the SBA complements the above-referenced resources by developing and disseminating a wide variety of business assistance information, via publications and telecommunication/computer technologies. The SBA "Answer Desk" (1-800-827-5722) remains much in demand. In October 1992, we began our Electronic Bulletin Board ("SBA On-Line"), and it already has had over 200,000 customers. We are in the process of opening "Business Information Centers" in some major cities, starting with Seattle, Los Angeles, Houston, St. Louis and Atlanta. As resources become available, more of these will be opened.

In view of the above, our Office of Advocacy decided to refine and expand its data bases for identifying economic indicators, activities, trends and sectors by geographic locations, i.e., urban/central city, suburban/exurban, and nonmetropolitan/rural. Advocacy is in the process of transitioning its data collection activities from Dun & Bradstreet files to using Bureau of the Census data. Thus, at present, the Office of Advocacy is not tabulating any data that are rural-specific. However, they are positioning themselves to have the capability to tabulate data that will track job creation by firm size in rural areas. They anticipate having this ability within the next year.

Question 2. How would we measure success in rural economic development? Jobs? Kinds of jobs? Economic growth?

Response. Success can be measured in many ways. Job creation is one. SBA does evaluate its programs by these standards.

SBA loans appear to be quite successful in financing the growth of rural businesses, according to data from a comprehensive study by Price Waterhouse. Median employment growth in rural businesses that received SBA 7(a) guaranteed loans in

1985 was 232 percent over the next 4 years. Sales grew by 343 percent, taxes by 197 percent, and profits by 172 percent.

While businesses located in urban and suburban areas also showed tremendous growth, the expansion of rural businesses was highest in three categories—jobs, sales and taxes—and was second in growth of profits. [Please see table.]

GROWTH OF MEDIAN VALUES OF SBA LOAN RECIPIENTS

By Urban, Suburban and Rural Location

Item	Urban			Suburban			Rural		
	1984	1989	Growth percent	1984	1989	Growth percent	1984	1989	Growth percent
Sales revenue	180	650	262	140	538	284	130	576	343
Total employment	4.1	10.1	150	4.1	10.1	149	3.0	10.1	232
Total taxes	24	43	79	16	38	138	11	31	197
Profit	36	77	115	27	95	251	25	68	172

Dollars of sales revenue, total taxes, and profit are in thousands.

SUCCESS STORIES

Other research has turned up additional evidence of the success of SBA programs in rural areas. Two researchers from Cornell University, in a survey of 123 manufacturing firms in a rural 10 county region of central New York State, revealed a fascinating snapshot of what it takes to start a new firm, as well as the interesting observation that one-quarter of them received some type of SBA assistance when starting out. Among the findings:

- Over half of the founders said they got some help from a Federal, State, or local government agency. The agencies named most often were a local development agency and the Small Business Administration—each was named by a quarter of the firms. The kind of outside help most often mentioned was financing.
- Other agencies mentioned most often as being helpful included Small Business Development Centers and the Small Business Innovation Research program.

A survey of capital availability in urban and rural Idaho was carried out at Boise State University and revealed some interesting differences between the two types of areas.

- More rural lenders than urban lenders indicated they were unfamiliar with government financing programs, except for the SBA 7(a) program, where 50 percent of urban and 60 percent of rural lenders had a familiarity.
- The most commonly recognized and the most commonly used public financing program among small businesses in Idaho was the SBA 7(a) program, which had been used by 9 percent of urban and 17 percent of rural businesses in the State.

Question 3. The line between a farm-production operation and a small business is beginning to become blurred in many cases, particularly in the livestock sector. Some Farm Credit System banks have expressed a desire to make loans to farm enterprises and have them guaranteed through the 7(a) program. I know you've looked at this question.

Have you come to any conclusion about SBA guaranteeing Farm Credit System bank loans? If SBA can't, or won't, do it, is the reason statutory, regulatory, or policy?

Response. SBA has looked into the situation. With members of your staff, we have met with Farm Credit Administration officials to get a clearer picture of their structure, funding, and commercial credit experience. The answers to our questions lead to a conclusion that these Farm Credit System banks do not meet a long-standing requirement of SBA. That is that the lender must hold itself out to the public as a commercial lender.

This has two aspects. The first deals with the "public". Since the Farm Credit System banks restrict their assistance to borrowers who do business with farmers or ranchers, this is not the broad, general public.

The second aspect is that of commercial credit experience. We have not seen compelling evidence of experience in commercial credit, and from our limited involvement in the farm lending field, we know that there is a considerable difference between the criteria for farm loans and those for commercial loans.

Our Office of General Counsel is looking into the factors affecting this question.

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